

FEDERAL RESERVE SYSTEM

12 CFR Parts 247 and 262

[Docket No. R-1900]

RIN 7100-AH30

Application Procedures for Board-Supervised Insured Depository Institutions Seeking Approval for a Subsidiary to Issue Payment Stablecoins

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Notice of proposed rulemaking.

SUMMARY: The Board of Governors of the Federal Reserve System (Board) proposes to issue regulations that would establish procedures to be followed by an insured State member bank that seeks to obtain Board approval for a subsidiary to issue payment stablecoins pursuant to the Guiding and Establishing National Innovation for U.S. Stablecoins Act (GENIUS Act).

DATES: Comments must be received by the Board on or before **[INSERT DATE 60 DAYS FROM DATE OF PUBLICATION IN THE *FEDERAL REGISTER*]**.

ADDRESSES: You may submit comments, identified by Docket No. R-1900 and RIN 7100-AH30, by any of the following methods:

- *Agency Website:* <https://www.federalreserve.gov/apps/proposals/>. Follow the instructions for submitting comments, including attachments. ***Preferred Method.***
- *Mail:* Benjamin W. McDonough, Secretary, Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue NW, Washington, DC 20551.
- *Hand Delivery/Courier:* Same as mailing address.

- *Other Means: publiccomments@frb.gov.* You must include the docket number in the subject line of the message.

Comments received are subject to public disclosure. In general, comments received will be made available on the Board's website at <https://www.federalreserve.gov/apps/proposals/> without change and will not be modified to remove personal or business information including confidential, contact, or other identifying information. Comments should not include any information such as confidential information that would not be appropriate for public disclosure. Public comments may also be viewed electronically or in person in Room M-4365A, 2001 C St. NW, Washington, DC 20551, between 9 a.m. and 5 p.m. during Federal business weekdays.

FOR FURTHER INFORMATION CONTACT: Lucy Chang, Assistant General Counsel, (202) 475-6331, Kelley O'Mara, Assistant General Counsel, (202) 430-0911, Isabel Echarte, Senior Attorney, (202) 945-2412, and Harrison Clanton, Attorney, (202) 923-7765, Legal Division; or Vaishali Sack, Deputy Associate Director, (202) 579-6684, Patrick Grant, Manager, (202) 714-4532, and Alex Noussias, Senior Analyst, (240) 517-9688, Division of Supervision and Regulation. For users of TTY–TRS, please call 711 from any telephone, anywhere in the United States or (202) 263-4869.

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I. Introduction

The Board of Governors of the Federal Reserve System (Board) is issuing this notice of proposed rulemaking (proposed rule) to implement certain application provisions in the Guiding and Establishing National Innovation for U.S. Stablecoins Act (the GENIUS Act or the Act).¹ The Board proposes to issue the proposed rule as subpart D to Regulation UU in 12 CFR part

¹ Pub. L. No. 119-27, 139 Stat. 419 (codified at 12 U.S.C. 5901 *et seq.*).

247.² The proposed rule would establish a tailored application process for an insured State member bank (applicant) to obtain approval from the Board for a subsidiary to issue payment stablecoins.³ The application process in the proposed rule is designed to enable the Board to effectively evaluate the safety and soundness of the applicant's proposed activities based on the factors set out in the GENIUS Act, while minimizing unnecessary regulatory burden on applicants.

II. Background and Legal Authority

Under the GENIUS Act, subject to certain exceptions, only a permitted payment stablecoin issuer (PPSI) may issue payment stablecoins in the United States.⁴ A PPSI is a person formed in the United States that is (i) a subsidiary of an insured depository institution that has been approved to issue payment stablecoins by its primary Federal payment stablecoin regulator; (ii) a Federal qualified payment stablecoin issuer approved by the Office of the Comptroller of the Currency (OCC); or (iii) a State-qualified payment stablecoin issuer approved by its State payment stablecoin regulator.⁵ The primary Federal payment stablecoin regulator of a PPSI that is a subsidiary of an insured depository institution is the appropriate Federal banking agency of the insured depository institution, as that term is defined in section 3 of the Federal Deposit

² In this proposed rule, other portions of 12 CFR part 247 are being reserved. The Board is concurrently proposing regulations to implement the other portions of the GENIUS Act at 12 CFR part 247 as Regulation UU.

³ The Board is proposing to define the term "payment stablecoin" consistent with the definition of the term in section 2(22) of the GENIUS Act (12 U.S.C. 5901(22)). The GENIUS Act defines a payment stablecoin as a digital asset (i) that is, or is designed to be, used as a means of payment or settlement, and (ii) the issuer of which (A) is obligated to convert, redeem, or repurchase for a fixed amount of monetary value and (B) represents or creates the reasonable expectation that it will maintain a stable value relative to a fixed amount of monetary value. 12 U.S.C. 5901(22)(A). The GENIUS Act further provides that the term payment stablecoin does not include a digital asset that is a national currency, a deposit, or a security. 12 U.S.C. 5901(22)(B).

⁴ 12 U.S.C. 5902, 5916.

⁵ 12 U.S.C. 5901(23).

Insurance Act (FDI Act),⁶ or the National Credit Union Administration in the case of a subsidiary of an insured credit union, as that term is defined in section 2 of the GENIUS Act.⁷ Accordingly, an insured State member bank must obtain the prior approval of the Board for a subsidiary to become a Board-supervised PPSI⁸ and issue payment stablecoins.

Section 5(a)(1) of the GENIUS Act provides that the Board shall receive, review, and consider applications from any insured State member bank that seeks approval for a subsidiary to become a Board-supervised PPSI and issue payment stablecoins.⁹ The GENIUS Act requires the Board to promulgate rules for processing applications submitted under section 5 of the GENIUS Act.¹⁰ The framework established by the Board, including with respect to licensing, must prioritize the safety and soundness of the applicant, including its Board-supervised PPSI subsidiary.¹¹ Additionally, the Federal Reserve Act and other Federal statutes provide the Board with authority over the supervision and regulation of State member banks, including with respect to their investments in, and the activities of, subsidiaries.¹²

The Board is required to evaluate and make a determination on a “substantially complete application” using the factors listed in section 5(c) of the GENIUS Act, including the proposed Board-supervised PPSI’s ability to meet statutory and regulatory requirements, as well as other

⁶ See 12 U.S.C. 5901(1), (25).

⁷ See 12 U.S.C. 5901(25), (33).

⁸ Proposed section 247.2 defines “Board-supervised PPSI” to mean a PPSI supervised and regulated by the Board pursuant to the GENIUS Act (12 U.S.C. 5901 *et seq.*).

⁹ 12 U.S.C. 5904(a)(1). The Board is proposing to define the term “State member bank” to mean a State-chartered bank that has been approved for membership in the Federal Reserve System. This term is similar to the definition of “State member bank” as set forth in section 3(d) of the Federal Deposit Insurance Act (12 U.S.C. 1813(d)(2)).

¹⁰ 12 U.S.C. 5904(a)(2)(A); *see also* 5 U.S.C. 552(a)(1).

¹¹ 12 U.S.C. 5904(a)(1)(B).

¹² See, e.g., 12 U.S.C. 248, 321–339a, 483, 602, 1818, 1828, 1831o, 1831p-1 (implemented in 12 CFR part 208).

factors related to management and safety and soundness.¹³ As described in greater detail below, upon the receipt of a substantially complete application, the Board must render a decision on the application within 120 days.¹⁴ Additionally, as described in greater detail below, the Board may deny a substantially complete application only upon determining that the activities of the applicant, including the activities of the proposed Board-supervised PPSI, would be unsafe or unsound based on the factors set out in the GENIUS Act.¹⁵ The GENIUS Act sets out a process by which applicants may appeal a denial, as discussed in greater detail in section III.D of this Supplementary Information.¹⁶

The GENIUS Act also provides the Board and other Federal regulators authority to issue other rules, including prudential requirements, for PPSIs.¹⁷ The Board is concurrently proposing additional rules in a separate notice to implement those provisions of the GENIUS Act.

III. Proposed Rule

The proposed rule would set out a process for insured State member banks to apply to the Board for prior approval for a subsidiary to issue payment stablecoins using the applications process and requirements set out in the GENIUS Act. The proposed rule would: (i) describe the scope of the application requirements; (ii) set out rules of procedure governing such applications; (iii) specify the information that applicants must submit; and (iv) establish a process governing

¹³ 12 U.S.C. 5904(a)(3), (c).

¹⁴ 12 U.S.C. 5904(d)(1)(A).

¹⁵ 12 U.S.C. 5904(d)(2)(A)(i).

¹⁶ 12 U.S.C. 5904(d)(2)(C).

¹⁷ *See, e.g.*, 12 U.S.C. 5903(h) and 5913.

the appeal, hearings, and final determination for applications. These provisions in the proposal would not apply to uninsured State member banks.¹⁸

A. Applicants

The GENIUS Act provides that when an insured State member bank seeks approval for a subsidiary to issue payment stablecoins, the insured State member bank is the entity that must file an application with the Board. Section 247.2 of the proposed rule defines “applicant” to mean an insured State member bank that has submitted an application for a subsidiary to issue payment stablecoins pursuant to section 5 of the GENIUS Act and section 247.30 of the proposed rule.

The GENIUS Act and section 247.2 of the proposed rule define the term “subsidiary” by reference to the FDI Act, which states that a subsidiary includes any company which is owned or controlled directly or indirectly by another company.¹⁹ In the FDI Act, the term “control” is defined by reference to the Bank Holding Company Act (BHC Act).²⁰ The Board’s Regulation Y sets out the Board’s presumptions of control and noncontrol under the controlling influence prong of the BHC Act definition of “control.”²¹ The Board proposes to evaluate whether an applicant would control a proposed Board-supervised PPSI under the framework set out in the BHC Act and the Board’s Regulation Y. Accordingly, section 247.2 of the proposed rule would

¹⁸ An uninsured State member bank may apply to its home State payment stablecoin regulator in order to become a PPSI that is a State qualified payment stablecoin issuer. 12 U.S.C. 5901(31). In such case, although no application need be submitted to the Board by the bank under the GENIUS Act, the uninsured State member bank would remain subject to requirements otherwise applicable to State member banks, in addition to requirements applicable to the entity as a State-qualified payment stablecoin issuer.

¹⁹ See 12 U.S.C. 5901(32) (“The term “subsidiary” has the meaning given that term in [12 U.S.C. 1813].”); *see also* 12 U.S.C. 1813(w)(4).

²⁰ 12 U.S.C. 1813(w)(5).

²¹ See 12 CFR part 225, subpart D.

define the term “control” such that a person²² (the “first person”) would control another person (the “second person”) if: (i) the first person directly or indirectly or acting through one or more persons owns, controls, or has power to vote 25 percent or more of any class of voting securities of the second person, (ii) the first person controls in any manner the election of a majority of the directors or trustees of the second person, or (iii) the Board determines, after notice and opportunity for hearing, that the first person directly or indirectly exercises a controlling influence over the management or policies of the second person.²³ This approach would be consistent with the statutory definitions in the GENIUS Act.

Question 1: What additional clarification, if any, would be helpful regarding when an insured State member bank would be considered to control a proposed Board-supervised PPSI?

Question 2: Under the GENIUS Act, the definition of “subsidiary” incorporates the definition of “control” under the BHC Act. The Board’s Regulation Y provides a regulatory framework for implementing the statutory definition of “control.” What, if any, clarifications to Board’s control framework would be appropriate to address issues specific to PPSIs and, in particular, insured State member banks that seek approval for a subsidiary to issue payment stablecoins?

Question 3: How does the statutory requirement that an insured State member bank control its proposed Board-supervised PPSI create challenges or opportunities for a consortium model of stablecoin issuance?

²² The Board is proposing to define the term “person” as the term is defined in section 2(24) of the GENIUS Act (12 U.S.C. 5901(24)). As proposed, the term “person” would mean an individual, partnership, company, corporation, association, trust, estate, cooperative organization, or other business entity, incorporated or unincorporated.

²³ See 12 U.S.C. 1841(a)(2).

B. Rules of Procedure

The proposed rule would set out rules of procedure for applications made to the Board under section 5 of the GENIUS Act.²⁴ Section 247.30(b)(1) of the proposed rule would provide that the applicant must submit its application to the appropriate Federal Reserve Bank, which will promptly send a copy of the application to the Board. The applicant would submit information in the form of an application by letter containing the information listed in the regulation, as described in greater detail below. Section 247.30(b)(2) of the proposed rule would provide that the application must (i) be signed by a duly authorized agent of the applicant; (ii) describe the proposal, including all relevant facts, and the action requested; and (iii) indicate the reasons why the application should be approved, addressing the factors set out in section 5(c) of the GENIUS Act, which are discussed in greater detail in section III.C.2 of this Supplementary Information.²⁵ The proposed rule also identifies, and would require the submission of, information necessary for the Board to evaluate the statutory factors that it must consider under the GENIUS Act and the proposed rule, as discussed in greater detail in section III.C.3 of this Supplementary Information.

Section 247.30(h) of the proposed rule would further specify that the Board may, in exceptional circumstances and to the extent consistent with the GENIUS Act, waive the requirements in this proposed rule or adopt different procedures. For example, the Board may elect to waive or change the requirements for an application involving structures where the applicant does not propose to own 100 percent of the proposed Board-supervised PPSI, including

²⁴ The proposed rule would also amend 12 CFR 262.3 to clarify that the existing applications processes set out in that section do not apply to an application by an insured State member bank that seeks approval for a subsidiary to issue payment stablecoins pursuant to the GENIUS Act. Instead, the more specific procedures in the proposed rule would apply.

²⁵ 12 U.S.C. 5904(c).

structures involving more than one bank. If a proposed payment stablecoin is to be issued by a subsidiary of multiple banks through a consortium, the Board may agree to accept and process a single application on behalf of all insured State member banks of the consortium if the consortium could be considered a subsidiary of each.

State member banks may request feedback prior to submitting a potential application for a subsidiary to issue payment stablecoins.²⁶ In general, the pre-filing process can be beneficial to entities submitting complex proposals or seeking feedback on specific areas regarding a proposal.

Question 4: What other considerations should the Board and the other agencies take into account in processing applications involving a consortium of insured depository institutions? What are approaches the agencies could take to coordinate review of filings involving multiple insured depository institutions with different primary Federal regulators?

Question 5: What are the advantages and disadvantages of having a consortium-owned PPSI submit relevant application(s) on behalf of its members versus each insured depository institution individually submitting an application to its primary Federal regulator?

C. Framework for Receiving and Reviewing Applications

1. Timing and Informational Completeness

The GENIUS Act states that an application shall be considered substantially complete if it contains sufficient information for the Board to render a decision on whether the applicant satisfies the factors described in section 5(c) of the GENIUS Act.²⁷ Section 5(d)(1)(B)(ii) of the

²⁶ The Board has an existing process for State member banks and others to seek feedback in advance of submitting an application. See SR 12-12 / CA 12-11, Implementation of a New Process for Requesting Guidance from the Federal Reserve Regarding Bank and Nonbank Acquisitions and Other Proposals (July 11, 2012).

²⁷ 12 U.S.C. 5904(d)(1)(B)(i).

GENIUS Act provides that, not later than 30 days after receiving an application, the Board must notify the applicant as to whether the Board considers the application to be substantially complete and, if the application is not substantially complete, specify the additional information the applicant shall provide in order for the application to be considered substantially complete.²⁸ An application will be considered substantially complete as of the date that the appropriate Federal Reserve Bank received the final materials necessary for the application to be deemed substantially complete (the “submission date”), not the date on which the Board sends a notification to the applicant regarding the substantially complete determination. Section 5(d)(1)(A) of the GENIUS Act provides that the Board shall render a decision on the application not later than 120 days after the submission date.²⁹ Under section 5(d)(3) of the GENIUS Act, if the Board fails to render a decision on a complete application within 120 days of the submission date, the application shall be deemed approved.³⁰

Paragraphs (c) and (e) of section 247.30 of the proposed rule would generally restate the timing and informational completeness requirements of the GENIUS Act. Further, section 247.30(c)(1) of the proposed rule would clarify that an application would not be considered substantially complete if the applicant has omitted any information necessary for evaluating the statutory factors that the Board must consider under section 5 of the GENIUS Act. Examples of instances where the Board might not consider an application to be substantially complete include, but are not limited to, (i) if the application does not provide all of the information required by the proposed rule; (ii) if the information provided in the application contains significant gaps or is unclear in any material respect related to the statutory factors; or (iii) if the

²⁸ 12 U.S.C. 5904(d)(1)(B)(ii).

²⁹ 12 U.S.C. 5904(d)(1)(A).

³⁰ 12 U.S.C. 5904(d)(3).

Board determines that there are issues or deficiencies in the information provided that must be resolved (including through the submission of additional information) in order for the Board to consider the statutory factors.

Section 5(d)(1)(iii) of the GENIUS Act provides that an application considered substantially complete remains substantially complete unless there is a material change in circumstances that requires the Board to treat the application as a new application.³¹ Under section 247.30(c)(2) of the proposed rule, an application that has been considered substantially complete may be considered to no longer be substantially complete if the Board becomes aware that, due to a material change in circumstances, the information received as of the submission date is no longer sufficient for the Board to evaluate all statutory factors with respect to the application. A material change in circumstances may arise, for example, if (i) the applicant's financial condition deteriorates, (ii) the applicant materially alters the business plan of the proposed Board-supervised PPSI, or (iii) there are changes to the ownership structure of the proposed Board-supervised PPSI (such as new principal shareholders). Upon the appropriate Federal Reserve Bank's receipt of supplementary information that provides the Board with information necessary to render a decision under the statute and the proposed rule, the Board will assign a new submission date, and the 120-day clock will restart as of the new submission date.³²

Additionally, section 247.30(c)(4) of the proposed rule would clarify that information submitted within business hours on a business day in the time zone of the appropriate Federal Reserve Bank will be deemed to have been received by the appropriate Federal Reserve Bank on

³¹ 12 U.S.C. 5904(d)(1)(iii).

³² In such cases, the applicant will not need to withdraw the application; rather, once the necessary information has been provided, the Board will process the application consistent with the new submission date and related 120-day period.

that day.³³ Information submitted on a non-business day or outside business hours would be deemed to be received on the next business day. This approach generally is consistent with the Board's current practice on other applications matters.

2. Statutory Factors

Section 5(c) of the GENIUS Act sets out a list of factors that the Board must consider when reviewing an application.³⁴ These factors are restated in section 247.30(d) of the proposed rule and are explained briefly below.

Ability to Meet Requirements Under Section 4 of the GENIUS Act. Under section 5(c)(1) of the GENIUS Act, the Board must evaluate the ability of the proposed Board-supervised PPSI,³⁵ based on financial condition and resources, to meet the requirements set forth under section 4 of the GENIUS Act.³⁶ Among other things, section 4 of the GENIUS Act requires that a PPSI must: (i) maintain identifiable reserves backing the outstanding payment stablecoins on at least a one-to-one basis, comprising specified categories of reserves; (ii) publish the composition of reserves on a monthly basis; (iii) adhere to capital, liquidity, and risk management

³³ Applicants are encouraged to submit applications through FedEZFile, which can be accessed through <https://www.federalreserve.gov/supervisionreg/afi/fedezfile-fluent.htm>.

³⁴ 12 U.S.C. 5904(c).

³⁵ As discussed in section III.A of this Supplementary Information above, the "applicant" for purposes of section 5 of the GENIUS Act and the proposed rule is an insured State member bank seeking approval for a subsidiary to issue payment stablecoins. However, in paragraph 5(c)(1) of the GENIUS Act, the term "applicant" is clarified to refer to the PPSI subsidiary of an applicant that is an insured depository institution. The proposed rule interprets this clarification to apply to all of the factors in subsection 5(c) of the GENIUS Act that use the term "applicant." This approach would align the scope of the statutory factor in section 5(c)(2) of the GENIUS Act to the substantive requirement in section 4(f) of the GENIUS Act, which prohibits any individual who has been convicted of a felony offense involving insider trading, embezzlement, cybercrime, money laundering, financing of terrorism, or financial fraud from serving as an officer or director of a PPSI. 12 U.S.C. 5903(f), 5904(c)(2). Additionally, it would align the statutory factor in section 5(c)(4) of the GENIUS Act to section 4(a)(1)(B) of the GENIUS Act, which requires a PPSI to have a redemption policy meeting certain specified requirements. 12 U.S.C. 5903(a)(1)(B), 5904(c)(4).

³⁶ 12 U.S.C. 5903.

requirements promulgated by the Board; (iv) comply with applicable Bank Secrecy Act³⁷ requirements and other requirements relating to economic sanctions, the prevention of money laundering and countering the financing of terrorism, and customer identification and due diligence; (v) observe limitations on permissible activities; (vi) comply with provisions prohibiting specific conduct or activities, such as the prohibition on the use of deceptive names; and (vii) have the technological capability to comply, and actually comply, with the terms of any lawful order.³⁸ The Board is concurrently proposing rules to implement section 4 of the GENIUS Act. The ability to comply with any such rules will be part of the Board's evaluation under this factor.

As part of the evaluation of this statutory factor, the proposed rule would provide that an applicant must demonstrate that a proposed Board-supervised PPSI has the ability to come into compliance with any capital rules applicable to Board-supervised PPSIs, once such rules become effective.³⁹ Until capital requirements applicable to Board-supervised PPSIs become effective, an applicant would need to demonstrate that the proposed Board-supervised PPSI would have sufficient initial capital, net of any organizational expenses that would be charged to the PPSI's capital after it begins operations, to support the proposed Board-supervised PPSI's projected volume and type of business as outlined in the business plan. An applicant should also provide to the Board a longer-term capital plan that indicates that the Board-supervised PPSI would have

³⁷ The "Bank Secrecy Act" is defined to refer to (1) section 21 of the FDI Act (12 U.S.C. 1829b); (2) chapter 2 of title I of Public Law 91-508 (12 U.S.C. 1951 et seq.); and (3) subchapter II of chapter 53 of title 31, United States Code and notes thereto (31 U.S.C. 5311 et seq.). 12 U.S.C. 5901(2). The proposal would add the phrase "and notes thereto" as a clarification.

³⁸ *See generally* 12 U.S.C. 5903(a).

³⁹ The Board is concurrently proposing rules to implement the other provisions of the GENIUS Act, including the Act's provisions regarding capital. *See* proposed sections 247.15-.18.

sufficient financial, managerial, and operational resources to support the future projected volume and type of business.

Factors Related to Management. The Board must also consider certain factors related to management described in section 5(c)(2) and 5(c)(3) of the GENIUS Act. Under section 5(c)(2) of the GENIUS Act, the Board must consider whether an individual who has been convicted of a felony offense involving insider trading, embezzlement, cybercrime, money laundering, financing of terrorism, or financial fraud is serving as an officer or director⁴⁰ of the proposed Board-supervised PPSI.⁴¹ Under section 5(c)(3) of the GENIUS Act, the Board must consider the competence, experience, and integrity of the officers, directors, and principal shareholders of the proposed Board-supervised PPSI, its subsidiaries, and parent company, including—(A) the record of those officers, directors, and principal shareholders of compliance with laws and regulations; and (B) the ability of those officers, directors, and principal shareholders to fulfill any commitments to, and any conditions imposed by, their primary Federal payment stablecoin regulator in connection with the application at issue and any prior applications.⁴²

Redemption Policy. Under section 5(c)(4) of the GENIUS Act, the Board must also consider whether the redemption policy of the proposed Board-supervised PPSI meets the

⁴⁰ The proposed rule would define the term “director” to mean an individual who serves on the board of directors of an entity, except an advisory director who (1) is not elected by the shareholders of the entity, (2) does not have the authority to vote on matters before the board of directors or any committee of the board of directors, and (3) provides solely general policy advice to the board of directors or any committee. The proposed rule would define the term “board of directors” to mean an entity’s board of directors or the group of individuals that serve the nearest equivalent function of acting as the governing body of an entity. These definitions are generally consistent with definitions of these terms in other rules. *See, e.g.*, 12 CFR 215.2(d)(1) (director); 225.31(e)(1) (board of directors), and would address the various organizational forms used by entities, including those that do not have a traditional board of directors.

⁴¹ 12 U.S.C. 5904(c)(2); *see also* 12 U.S.C. 5903(f).

⁴² 12 U.S.C. 5904(c)(3).

standards under 12 U.S.C. 5903(a)(1)(B).⁴³ The GENIUS Act requires that a PPSI publicly disclose its redemption policy. The GENIUS Act also provides that the redemption policy must: (i) establish clear and conspicuous procedures for timely redemption of outstanding payment stablecoins; and (ii) publicly, clearly, and conspicuously disclose, in plain language, all fees associated with purchasing or redeeming its payment stablecoins, provided that such fees can only be changed with not less than seven days' prior notice to consumers.⁴⁴

3. Information Submitted as Part of an Application

Under the proposed rule, the applicant would submit information to the appropriate Federal Reserve Bank in the form of an application by letter that would contain all applicable information listed in the regulation. The Board is not proposing to issue a separate form at this time. The Board is adopting a tailored approach whereby applicants that are proposing to own 100 percent of a Board-supervised PPSI would generally not be expected to submit certain information, including information that is already available to the Board. However, the Board may seek additional information where necessary to evaluate the statutory factors (see section 247.30(b)(3)(ii), (b)(5) of the proposed rule). Further, whenever possible, the Board would utilize information already available to it as the primary Federal regulator of the applicant, such as supervisory and examination information, rather than requiring submission of duplicative information as part of an application.

Under section 247.30(b)(2) of the proposed rule, the application must include a business plan; financial information; relevant policies, procedures, terms, and agreements; documentation

⁴³ 12 U.S.C. 5904(c)(4). The Board is concurrently proposing rules to implement the other provisions of the GENIUS Act, including the Act's provisions regarding redemption policies and disclosures. *See* proposed section 247.12.

⁴⁴ 12 U.S.C. 5903(a)(1)(B).

relating to the capital structure of the proposed Board-supervised PPSI; biographical reports; certifications regarding certain felony offenses; and a certification that the filing submitted to the Board, including any supporting materials, contains no material misrepresentations or omissions. This information is necessary to evaluate the factors in section 5(c) of the GENIUS Act and to determine whether the activities of the applicant, including the activities of the proposed Board-supervised PPSI, would be unsafe or unsound.⁴⁵

Business Plan. As set out in section 247.30(b)(2)(i) of the proposed rule, the business plan should include descriptions of: (i) the proposed business model, including the proposed products, services, and activities of the proposed Board-supervised PPSI, and the legal basis under applicable Federal and State law for each proposed activity, including any activities other than those enumerated in section 4(a)(7)(A) of the GENIUS Act that would be conducted by the proposed Board-supervised PPSI;⁴⁶ (ii) contemplated affiliate⁴⁷ transactions and relationships, including a description of how the proposed Board-supervised PPSI would be controlled by the applicant; (iii) the proposed organizational and governance structure;⁴⁸ (iv) any material third-party relationships; (v) identities, roles, and responsibilities of all entities involved in the proposed related activities; and (vi) how the proposed Board-supervised PPSI would maintain compliance with the key requirements of the GENIUS Act and its implementing regulations. The business plan should include information on how the applicant plans for the payment stablecoin

⁴⁵ 12 U.S.C. 5904(c) (factors), 5904(d)(2)(A) (grounds for denial).

⁴⁶ 12 U.S.C. 5903(a)(7)(A).

⁴⁷ The proposed rule would define the term “affiliate” to mean a person that controls, is controlled by, or is under common control with another person, which is generally consistent with the definition in 12 U.S.C. 1841(k) and 12 CFR 225.2(a).

⁴⁸ If a proposed payment stablecoin is to be issued by a Board-supervised PPSI that is a subsidiary of more than one bank, the Board would expect the application to include the governance structure of such arrangement, including expected activities of the other banks.

to maintain a stable value, including a description of any applicant guarantees, intercompany agreements, or relationships with third parties that would distribute or participate in price discovery of or market-making for the stablecoins issued by the proposed Board-supervised PPSI, or any third parties that have control of the proposed Board-supervised PPSI's private keys or the ability to directly mint and redeem stablecoins on behalf of the proposed Board-supervised PPSI.

Financial Information. Additionally, under section 247.30(b)(2)(ii) of the proposed rule, applicants must include financial information relevant to the proposed Board-supervised PPSI, including: (i) a description of how the proposed Board-supervised PPSI would be funded initially and on an ongoing basis, including whether it is anticipated that an applicant or any individual would make a financial guarantee or otherwise act to financially support the proposed Board-supervised PPSI (including any related intercompany agreements);⁴⁹ (ii) projected stablecoin reserve assets and their composition;⁵⁰ (iii) reserve management plans; and (iv) financial projections, with accompanying assumptions, for the first three years of operations for the proposed Board-supervised PPSI. Such information would generally align with the Board's practice of requesting three years of *pro forma* financial statements as a component of other applications, such as for applications for *de novo* State member banks.

⁴⁹ With respect to a planned capital and liquidity structure, the Board may consider any planned financial commitments from the applicant's or proposed Board-supervised PPSI's officers, directors, and principals or shareholders, or if there is a plan to launch the payment stablecoin as part of a consortium approach.

⁵⁰ The Board would expect that information provided on reserve assets and composition and their associated asset management plan to include a description of the reserves, if any, that are proposed to be in tokenized form and also a discussion of the scenarios under which the reserve asset mix could change and what situations might prompt that change. The Board is concurrently proposing rules to implement the other provisions of the GENIUS Act, including the Act's provisions regarding reserve assets, including monthly disclosures and principles-based reserve asset diversification standards, among other things. See proposed section 247.11.

Policies and Procedures. Section 247.30(b)(2)(iii) of the proposed rule would provide that the application should include relevant policies and procedures; customer agreements, terms of use, or other disclosures provided to customers; agreements with affiliates or third parties; or other information that would be necessary for evaluating the application. This would include documents relating to (i) redemption;⁵¹ (ii) maintenance of required reserve assets;⁵² (iii) custody of customer assets;⁵³ (iv) recordkeeping, reconciliation, and transaction processing; and (v) compliance with Bank Secrecy Act, sanctions compliance program, anti-money laundering, and countering the financing of terrorism requirements.⁵⁴ Draft or proposed documents may be submitted as part of the application.

Capital Structure. Under section 247.30(b)(2)(iv) of the proposed rule, if the proposed Board-supervised PPSI is not wholly owned by the applicant, the applicant must also provide documentation regarding the capital structure of the proposed Board-supervised PPSI, including the shares of each class of securities and total equity controlled by each shareholder on a fully diluted and undiluted basis, general background information for each shareholder with more than five percent of voting securities, and the organizational documents and other agreements governing the securities of the proposed Board-supervised PPSI.

Biographical and Personal Financial Information. Under section 247.30(b)(3) of the proposed rule, applicants also would be expected to submit a biographical report and other information necessary to initiate name checks⁵⁵ for principal shareholders that are not State

⁵¹ See 12 U.S.C. 5904(c)(4). See also *supra* n.43.

⁵² See 12 U.S.C. 5903(a)(1)–(2).

⁵³ See 12 U.S.C. 5909.

⁵⁴ See 12 U.S.C. 5903(a)(5)–(6).

⁵⁵ See SR Letter 15-8: Name Check Process for Domestic and International Applicants (June 25, 2015).

member banks, as well as for the top two decision-makers of the proposed Board-supervised PPSI. Individuals submitting this information would be expected to submit legible electronic fingerprints for a biometric-based criminal history search, consistent with current Board practices, to complete background checks.⁵⁶ This information is necessary for evaluating the factors which the Board must consider when evaluating an application under the GENIUS Act, including evaluating the competence, experience, and integrity of the officers,⁵⁷ directors, and principal shareholders of a proposed Board-supervised PPSI, its subsidiaries, and its parent company.⁵⁸ Principal shareholders and the top two decision-makers of the proposed Board-supervised PPSI would generally be required to submit the Biographical Report and Certifications, but not the Financial Report or Supporting Schedules, of the Interagency Biographical and Financial Report—FR 2081c (“IBFR”).⁵⁹ Under section 247.30(b)(3)(iii) of the proposed rule, the Board may waive these requirements in its discretion, such as for individuals that have submitted an IBFR to the Board and undergone name checks within the last five years, consistent with the Board’s procedures on other applications matters.

The proposed rule would define a principal shareholder as a person who directly or indirectly or acting in concert with one or more persons, or together with members of their

⁵⁶ See SR Letter 20-20: Updated Fingerprinting Process Related to Applications Reviewed by the Federal Reserve (August 14, 2020).

⁵⁷ The proposed rule would define the term “officer” to mean the president, chairman, chief executive officer, chief operating officer, chief financial officer, chief investment officer, chief risk officer, chief technology officer, and Bank Secrecy Act officer. The term includes any individual serving in the functional capacity of the listed titles or their equivalent, without regard to title, salary, or compensation. The term “officer” would also be defined to include any other person identified by the Board or appropriate Federal Reserve Bank, whether or not hired as an employee, with significant influence over, or who participates in, major policymaking decisions of the entity. This definition is generally consistent with the definition of senior executive officer in 12 CFR 225.71(c).

⁵⁸ 12 U.S.C. 5904(c)(3).

⁵⁹ Available at https://www.federalreserve.gov/apps/reportingforms/Report/Index/FR_2081c.

immediate family,⁶⁰ will own, control, or hold the power to vote 10 percent or more of any class of voting securities of an entity, or any person that the Board determines has the power, directly or indirectly, to exercise a controlling influence over the management or policies of an entity. This definition is substantially similar to the definition in the IBFR instructions and the Board's Regulation Y, 12 CFR 225.2(n)(2). The proposed rule would state that an applicant may identify the top two decision-makers of the proposed Board-supervised PPSI; however, the Board reserves the right to determine that other persons are the top two decision-makers.

In section 247.30(d)(3)(ii) of the proposed rule, the Board has reserved authority to seek additional biographical or personal financial information with respect to officers, directors, and principal shareholders of a PPSI, its subsidiaries, or its parent companies, as necessary to evaluate the statutory factors. In general, when a proposed Board-supervised PPSI would be wholly owned by a State member bank and its officers and directors are already employed by the State member bank, the Board expects that additional biographical and personal financial information will not need to be collected or reviewed. However, the Board may seek additional information, including requesting the Financial Report or Supporting Schedules of the IBFR, in certain cases as needed to evaluate the statutory factors. Such information may be necessary, for example, (i) with respect to individuals that are not contemporaneously employed by the State member bank; (ii) when the proposed Board-supervised PPSI would not be wholly owned by the State member bank; (iii) when an individual is making a financial guarantee or otherwise agreeing to act to financially support the proposed Board-supervised PPSI; or (iv) in other exceptional circumstances.

⁶⁰ The Board is proposing to define the term "immediate family" to mean the spouse of an individual, the individual's minor children, and any of the individual's children (including adults) having their domicile in the individual's home. This term is consistent with the definition in the Board's Regulation O, 12 CFR part 215.

Certifications. Relatedly, section 247.30(b)(4)(i) of the proposed rule would require all officers and directors of the proposed Board-supervised PPSI to certify that they have not been convicted of a felony offense involving insider trading, embezzlement, cybercrime, money laundering, financing of terrorism, or financial fraud.⁶¹ This certification would help the Board to monitor compliance with section 4(f) of the GENIUS Act.⁶² Section 247.30(b)(4)(ii) would require an authorized officer of the applicant to certify in writing that the filing submitted to the Board, including any supporting materials, contains no material misrepresentations or omissions. It would also provide that the Board may review and verify any information filed in connection with a notice or an application, and that any person responsible for any material misrepresentation or omission in a filing or supporting materials may be subject to enforcement action and other penalties, including criminal penalties provided in 18 U.S.C. 1001.

Additional Information. Section 247.30(b)(5) of the proposed rule provides that the Board may, at any time, request additional information that the Board, in its sole discretion, deems necessary for evaluating the factors the Board must consider under section 5(c) of the GENIUS Act.⁶³ As applications often present distinct facts and circumstances, the Board may need to request additional information after receipt of the application to evaluate an application under the statutory factors. In some cases, applicants may require additional time to prepare and share certain information or documents.

⁶¹ 12 U.S.C. 5904(c)(2).

⁶² 12 U.S.C. 5903(f). Section 4(f) of the GENIUS Act provides that if a Federal payment stablecoin regulator has a reason to believe that any person has knowingly violated that prohibition, the Federal payment stablecoin regulator shall refer the matter to the Attorney General. *Id.*

⁶³ 12 U.S.C. 5904(c).

4. Initial Action on an Application

Section 5(d)(2)(A) GENIUS Act provides that the Board shall only deny a substantially complete application if the Board determines that the activities of the applicant, including the activities of its proposed Board-supervised PPSI subsidiary, would be unsafe or unsound based on the factors in section 5(c) of the GENIUS Act.⁶⁴ Section 5(d)(2)(B) of the GENIUS Act further provides that, if the Board denies a complete application, the Board shall provide the applicant with written notice explaining the denial with specificity not later than 30 days after the date of such denial. The written explanation must include all findings made by the Board with respect to all identified material shortcomings in the application, including actionable recommendations on how the applicant could address the identified material shortcomings.⁶⁵ Section 247.30(f) of the proposed rule would restate these requirements.

For avoidance of doubt, section 247.30(f)(1) of the proposed rule would clarify that inconsistency with any one of the factors in 12 U.S.C. 5904(c) may be sufficient to warrant denial to the extent that the proposed activities of the applicant, including the activities of its proposed Board-supervised PPSI, would be unsafe or unsound. Additionally, the Board may deny an application or defer action on such application if the record is not substantially complete and does not provide information necessary to assess whether an application is consistent with each statutory factor.⁶⁶

⁶⁴ 12 U.S.C. 5904(d)(2)(A)(i). The Act also states that the issuance of a payment stablecoin on an open, public, or decentralized network shall not be a valid ground for denial of an application. 12 U.S.C. 5904(d)(2)(A)(ii).

⁶⁵ 12 U.S.C. 5904(d)(2)(B).

⁶⁶ See 12 U.S.C. 5904(a)(3).

With respect to approvals, the Board reserves the right to impose conditions or commitments.⁶⁷ Specifically, section 247.30(g) of the proposed rule provides that the Board may impose conditions on any approval, including conditions to address financial, managerial, safety and soundness, compliance, or other concerns to ensure that approval is consistent with the relevant statutory factors and other provisions of the GENIUS Act.

5. Safe Harbor for Pending Applications

Section 5(f) of the GENIUS Act provides that the Board may waive the application of the requirements of the GENIUS Act for a period not to exceed 12 months beginning on the effective date of the GENIUS Act, with respect to a proposed Board-supervised PPSI, if the applicant has an application pending for the subsidiary to become a Board-supervised PPSI on that effective date.⁶⁸ The Board would invite such an applicant to submit, together with an application, a written request for a waiver that explains the basis for the request, the extent of the requirement(s) to be waived, and the time period requested, as well as the applicant's plan for coming into compliance with the relevant requirement(s).

Question 6: What additional clarification, if any, is needed regarding when an application would be considered substantially complete or regarding when a material change may arise? What additional clarification, if any, is needed with respect to the statutory deadline for initial action on an application?

Question 7: What additional clarification, if any, would be beneficial regarding the applications process generally?

⁶⁷ See 12 U.S.C. 5903(h)(1), 5904(c)(3)(B). Conditions imposed in writing in connection with any application or other request may be enforced in proceedings under applicable law. See 12 U.S.C. 5905(b)(2).

⁶⁸ 12 U.S.C. 5904(f).

Question 8: The proposed rule would require applicants to submit an application by letter containing specified information. Should the Board consider requiring applicants to instead submit a structured form? What are the advantages and disadvantages of each approach?

Question 9: Section 5(c) of the GENIUS Act states that the Board may establish any other factors to be considered. Should the Board consider establishing any additional factors? For example, consistent with the framework's prioritization of the safety and soundness of insured State member banks that seek to issue payment stablecoins through a Board-supervised PPSI, should the Board consider evaluating as a separate factor whether, in the judgment of the Board, the proposed activities of the Board-supervised PPSI would negatively impact the safety and soundness of the applicant? The Board welcomes comments on the advantages and disadvantages of adding such a factor. To the extent the Board should consider other factors, please describe the additional factors that the Board should consider and why those factors would be necessary to consider whether the activities of the applicant, including the activities of its proposed Board-supervised PPSI, would potentially be unsafe or unsound.

Question 10: Does the proposed rule request the types of policies, procedures, terms, and customer agreements of the applicant or proposed Board-supervised PPSI necessary to evaluate the factors? Should the Board consider any additional documents that would be necessary to evaluate the statutory factors, or should it adjust or further clarify the documents presently proposed for inclusion?

Question 11: What types of information should applicants submit to the Board to substantiate the sufficiency of the capital or liquidity structures of their proposed Board-supervised PPSI? What information would best demonstrate the appropriate composition,

custody, and valuation of the reserve assets backing a payment stablecoin? How should the Board evaluate this information in the period prior to rules setting out prudential requirements for Board-supervised PPSIs being finalized?

Question 12: In addition to the informational requirements discussed in section III.C.3 of this Supplementary Information, what information, if any, should the Board request to evaluate ownership or control structures with respect to Board-supervised PPSIs that are not wholly owned by a single State member bank, consistent with the statutory factors?

Question 13: The proposed rule would require principal shareholders that are not State member banks as well as the top two decision-makers of the proposed Board-supervised PPSI to submit the Biographical Report and Certifications of the IBFR and legible electronic fingerprints for a biometric-based criminal history search. Under the proposed rule, the Board would also reserve the right to request additional biographical or personal financial information with respect to officers, directors, and principal shareholders of the PPSI, its subsidiaries, or its parent companies as necessary to evaluate the statutory factors. Should the proposed rule instead require all officers, directors, and principal shareholders to submit a full IBFR? What are the advantages and disadvantages of this alternative approach? To what extent would such information be beneficial or unnecessary to evaluate the statutory factors?

Question 14: How, if at all, could the Board further streamline informational requirements set out in the rule with respect to insured State member banks that propose to own 100 percent of a Board-supervised PPSI?

Question 15: More generally, how, if at all, should the informational expectations described in the proposal be altered to enable the Board to evaluate the factors while minimizing the applicant's burden?

Question 16: The Board is not proposing to include a provision in the proposed regulatory text regarding procedures for requesting a waiver under the GENIUS Act's safe harbor provision due to the temporary nature of the provision and the case-by-case analysis required for any waiver. Should the Board include regulatory text on this provision? Why or why not? In what circumstances might an applicant request a waiver of provisions of the GENIUS Act, and what provisions would the applicant be likely to request to be waived?

Question 17: Certain stablecoin issuers currently issue more than one payment stablecoin; for example, some stablecoin issuers provide "white label" services for stablecoin issuance. How should the Board review applications from entities proposing to issue more than one payment stablecoin? What are the advantages and disadvantages of requiring a new application, as part of this proposed rule or as a condition of the approval of an application, for each new stablecoin issued by a Board-supervised PPSI? What are the advantages and disadvantages of requiring applicants applying for approval under section 5 of the GENIUS Act to submit information regarding proposals or plans to issue multiple payment stablecoins, or to submit such information going forward following approval?

Question 18: Is the term "director" sufficiently clear? How could the Board further clarify the term?

Question 19: Should the definition of "principal shareholder" or any other definitions explicitly incorporate governance instruments other than securities providing voting rights with respect to the activities of a Board-supervised PPSI? In particular, are there governance instruments that may not qualify as securities that the Board should incorporate or instruments common to partnerships that the Board should consider?

D. Opportunity for a Hearing and Final Determination

1. Overview

If the Board denies an application by an insured State member bank for a subsidiary to issue payment stablecoins, section 5(d)(2)(C) of the GENIUS Act provides that an applicant may request, in writing, an opportunity for a written or oral hearing before the Board to appeal the denial not later than 30 days after the applicant receives notice of the denial.⁶⁹ Upon receipt of a timely request for a hearing, the Board shall notice a time, not later than 30 days after the date of receipt of the request, and place at which the applicant may appear, personally or through counsel, to submit written materials or provide oral testimony and oral argument.⁷⁰ Not later than 60 days after the date of that hearing, the Board shall notify the applicant of a final determination, which shall contain a statement of the basis for that determination, with specific findings.⁷¹ If an applicant does not make a timely request for a hearing, the Board shall notify the applicant, not later than 10 days after the date by which the applicant may request a hearing, in writing, that the denial of the application is a final determination of the Board.⁷² Section 5(d)(4) of the GENIUS Act states that denial of an application by an insured State member bank seeking approval for a subsidiary to issue payment stablecoins shall not prohibit an applicant from filing a subsequent application.⁷³

The Board must establish a process and framework regarding applications by insured State member banks seeking approval for a subsidiary to issue payment stablecoins, including

⁶⁹ 12 U.S.C. 5904(d)(2)(C)(i).

⁷⁰ 12 U.S.C. 5904(d)(2)(C)(ii).

⁷¹ 12 U.S.C. 5904(d)(2)(C)(iii).

⁷² 12 U.S.C. 5904(d)(2)(C)(iv).

⁷³ 12 U.S.C. 5904(d)(4).

with respect to hearings, appeals, and final determinations.⁷⁴ Section 247.31 of the proposed rule would set out rules of procedure governing written and oral hearings and would set a standard for reversing any denial.⁷⁵

2. Rules of Procedure for Hearings

The proposed rule would restate the hearing, appeals, and final determination processes provided for in section 5(d)(2)(C) of the GENIUS Act and summarized above, with additional clarifying information regarding those processes.⁷⁶ Section 247.31(a) of the proposed rule would state that not later than 30 days after the date on which the applicant receives a notice denying an application under section 247.30(f) of the proposed rule, the applicant may submit a written request to the appropriate Federal Reserve Bank⁷⁷ requesting an opportunity for a written or oral hearing before the Board to appeal the denial. Section 247.31(a) of the proposed rule would also provide that an applicant must specify the reasons why the Board should reconsider its denial, addressing the factors the Board may consider (described in greater detail below) and provide any supporting documentation.

Section 247.31(b)(1) of the proposed rule would state that upon receipt of a timely request for a hearing, the Board shall notice a time, not later than 30 days after the Board

⁷⁴ 12 U.S.C. 5904(a)(1)(B); *see also* 5 U.S.C. 552(a)(1).

⁷⁵ For avoidance of doubt, a State member bank requesting a hearing regarding a denial of an application submitted pursuant to section 5 of the GENIUS Act would be required to use the hearings, appeals, and final determinations process set out in this rule and may not appeal that denial using the internal appeals process for material supervisory determinations set out in SR Letter 20-28 / CA Letter 20-14: Internal Appeals Process for Material Supervisory Determinations and Policy Statement Regarding the Ombudsman for the Federal Reserve System (December 4, 2020).

⁷⁶ These rules of procedure are consistent with the requirements for informal adjudications under the Administrative Procedure Act, including 12 U.S.C. 555. The use of informal procedures also would be consistent with other banking applications. *See, e.g.*, 12 CFR 262.3(k). For avoidance of doubt, any hearings under section 5 of the GENIUS Act would not be subject to the Board's Uniform Rules of Practice and Procedure in 12 CFR part 263. *See* 12 CFR 263.1.

⁷⁷ Applicants are encouraged to submit such requests through FedEZFile.

receives the request, and place at which the applicant may appear, personally or through counsel, to submit written materials or provide oral testimony and oral argument. Section 247.31(b)(2) of the proposed rule would state that the applicant must submit all written materials, arguments, and relevant documentation to the appropriate Federal Reserve Bank on or before the time of the hearing. Section 247.31(b)(2) of the proposed rule would also state that to the extent the applicant provides new information, the applicant must explain why such information was not provided prior to the date of action on the application. The Board may, in its discretion, consider any written materials, arguments, or relevant documentation submitted after the applicable date.

The proposed rule would set a standard for when the Board may, in a final determination following such hearing, approve an application that was previously denied. Section 247.31(c) of the proposed rule would state that the Board may approve an application that was denied if the applicant presented relevant facts that, for good cause shown, were not previously presented to the Board, and, based on such new information, the application is consistent with approval under the statutory factors. The proposed rule would specify that the Board also may approve an application that was denied for any other reason the Board determines justifies relief. These standards are consistent with the Board's standard for evaluating reconsideration requests under its rules of procedure governing other applications.⁷⁸ Specifying these standards in the proposed rule would improve transparency regarding how the Board would evaluate information submitted in connection with a hearing. In the Board's experience acting on reconsideration requests in other contexts, these standards would appropriately balance an applicant's interest in a fair process with the considerations related to appropriate management of Board resources.

⁷⁸ See 12 CFR 262.3(k).

The proposed rule would also restate the timing for notifying the applicant of its final determination in section 5(d)(2)(C)(iii)-(iv) of the GENIUS Act. Specifically, section 247.31(d)(1) of the proposed rule would state that not later than 60 days after the time of the hearing under this section, the Board shall notify the applicant of a final determination, which shall contain a statement of the basis for that determination, with specific findings. Section 247.31(d)(2) of the proposed rule would state that if an applicant does not make a timely request for a hearing, the Board shall notify the applicant, not later than 10 days after the date by which the applicant may request a hearing, in writing, that the denial of the application is a final determination of the Board. Consistent with section 5(d)(4) of the GENIUS Act, section 247.31(e) would state that the denial of an application shall not prohibit the applicant from filing a subsequent application.

Question 20: In what additional circumstances, if any, should the Board consider approving an application that was previously denied?

Question 21: What additional clarification, if any, would be necessary or helpful regarding the hearing, appeal, and final determination processes, and why?

Question 22: Does the proposed appeal process effectively protect an applicant's due process rights, minimize regulatory burden, and meet the requirements of the GENIUS Act? Are there any other possible processes that the Board should consider using for appeals of denied applications?

IV. Impact of Proposed Rule

The Board is proposing regulations to implement application requirements and procedures for insured State member banks to request approval for a subsidiary to issue payment stablecoins in accordance with provisions of the GENIUS Act. The proposed rule would

establish application requirements and procedures to address the factors for consideration as outlined in 12 U.S.C. 5904(c).

Baseline. This analysis considers a pre-GENIUS Act baseline. The GENIUS Act provides regulatory clarity regarding the ability of insured depository institutions to control a subsidiary that issues payment stablecoins, and the regulatory framework that applies to such subsidiaries.

Entities Affected. The proposed rule would apply to all insured State member banks that seek approval for a subsidiary to issue payment stablecoins. As of the quarter ending December 31, 2025, there were 703 insured State member banks.⁷⁹ There is uncertainty regarding the number of Board-supervised institutions that may seek approval for a subsidiary to issue payment stablecoins in future periods and, thereby, be directly affected by the proposed rule.

Benefits. The proposed rule provides clarity as to how the Board will implement the GENIUS Act's application requirements and processes. The proposed rule would, for example, provide transparency regarding the types of information the Board will need to collect and review, as well as how the Board will make determinations that an application is "substantially complete," whether there has been a "material change," and how the Board would apply the statutory factors in relation to the denial standard. This information will provide increased certainty to insured State member banks considering whether to apply to the Board to seek approval for a subsidiary to issue payment stablecoins.

Costs. The compliance costs for the proposed rule are predominately one-time paperwork costs, which are described in section V.B of this Supplementary Information below on the Paperwork Reduction Act. Generally, the Board expects the costs of complying with the

⁷⁹ Call Report Data, December 31, 2025.

proposed rule to be relatively small in relation to the establishment and operation of a subsidiary that issues payment stablecoins. To the extent possible, the proposed rule would tailor and streamline the application process and would use information already available to the Board as the primary Federal regulator of the applicant, rather than requiring duplicative information to be submitted as part of an application. The Board believes that the application requirements as proposed effectively balance the collection of information necessary to address the factors for consideration established by the GENIUS Act while containing burden on the applicant. Applicants that are approved will incur ongoing compliance costs related to the regulatory framework established under the GENIUS Act, but such costs will be considered in rulemakings where such requirements are imposed.

Question 23: Would the proposed rule have any costs, benefits, or other effects that the Board has not identified?

V. Administrative Law Matters

A. Solicitation of Comments and Use of Plain Language

Section 722 of the Gramm-Leach-Bliley Act⁸⁰ requires the Federal banking agencies to use plain language in all proposed and final rules published after January 1, 2000. The Board has sought to present the proposed rule in a simple and straightforward manner and invites comment on the use of plain language. For example:

- Has the Board organized the material to suit your needs? If not, how could they present the proposed rule more clearly?
- Are the requirements in the proposed rule clearly stated? If not, how could the proposed rule be more clearly stated?

⁸⁰ Pub. L. 106-102, sec. 722, 113 Stat. 1338, 1471 (1999), 12 U.S.C. 4809.

- Does the proposed regulation contain technical language or jargon that is not clear? If so, which language requires clarification?
- Would a different format (grouping and order of sections, use of headings, paragraphing) make the proposed regulation easier to understand? If so, what changes would achieve that?
- Would more, but shorter, sections be better? If so, which sections should be changed?
- What other changes can the Board incorporate to make the proposed regulation easier to understand?

B. Paperwork Reduction Act

Certain provisions of the proposed rule contain “collections of information” within the meaning of the Paperwork Reduction Act (PRA) of 1995.⁸¹ In accordance with the requirements of the PRA, the Board may not conduct or sponsor, and the respondent is not required to respond to, an information collection unless it displays a currently valid Office of Management and Budget (OMB) control number. The Board has reviewed the proposed rule under authority delegated to the Board by the OMB. The proposed rule contains a new information collection and revisions to a current information collection subject to the PRA. To implement these requirements, the Board would implement (1) the Reporting Requirements Associated with Regulation UU (FR UU; OMB No. 7100-NEW); and (2) revise and extend for three years the Interagency Notice of Change in Control, Interagency Notice of Change in Director or Senior Executive Officer, and Interagency Biographical and Financial Report (FR 2081a, b, and c; OMB No. 7100-0134).

Comments are invited on:

⁸¹ 44 U.S.C. 3501–3521.

(a) whether the collections of information are necessary for the proper performance of the Board's functions, including whether the information has practical utility;

(b) the accuracy of the estimates of the burden of the information collections, including the validity of the methodology and assumptions used;

(c) ways to enhance the quality, utility, and clarity of the information to be collected;

(d) ways to minimize the burden of the information collection on respondents, including through the use of automated collection techniques or other forms of information technology; and

(e) estimates of capital or start-up costs and costs of operation, maintenance, and purchase of services to provide information.

Comments on aspects of this document that may affect reporting, recordkeeping, or disclosure requirements and burden estimates should be sent to the addresses listed in the ADDRESS section. A copy of the comments may also be submitted to the OMB desk officer: By mail to U.S. Office of Management and Budget, 725 17th Street NW, #10235, Washington, DC 20503 or by facsimile to (202) 395-5806, Attention, Federal Banking Agency Desk Officer.

Proposed Implementation of the Following Information Collection

Collection title: Reporting, Recordkeeping, and Disclosure Requirements Associated with Regulation UU.

Collection identifier: FR UU.

OMB Number: 7100-NEW.

General description of collection: The FR UU collection comprises the information requirements of the proposed Regulation UU that would be found in 12 CFR part 247. This information would be used to carry out the Board's responsibilities under the GENIUS Act,

including (i) to establish regulatory framework applicable to Board-supervised PPSIs, including requirements related to reserves, capital, activities, and risk management; (ii) to implement rules regarding State-qualified PPSIs setting forth (a) the unusual and exigent circumstances in which the Board may exercise its back-up enforcement authority with respect to any State-qualified PPSI, and (b) the transition and waiver process for covered PPSIs with an outstanding issuance value of more than \$10 billion; (iii) to implement rules for Board-supervised entities seeking to provide custodial services for reserves backing payment stablecoins and certain other assets; (iv) to make certain changes to its rules for banking organizations, including bank capital requirements and activities rules, to facilitate banking organization participation in payment stablecoin activities; and (v) to promulgate a framework related to the GENIUS Act's prohibition on tying, which would apply to all PPSIs (including PPSIs for which the Board is not the primary regulator).

Reporting Requirements

The proposed rule and associated Supplementary Information include provisions requiring applicants to submit certain information to the Board as part of an application by letter. The information collection requirements associated with the FR UU are event generated. The application requirements collect information concerning proposed PPSI subsidiaries. Under the proposed rule, an application must include a business plan; financial information; relevant policies, procedures, terms, and agreements; documentation relating to the capital structure of the PPSI in certain circumstances; biographical reports; and certifications regarding certain felony offenses of individuals associated with the proposed Board-supervised PPSI.

The Supplementary Information to the proposed FR UU provides that an applicant may request a waiver of the requirements of the GENIUS Act under certain circumstances. The

Supplementary Information to the proposed FR UU states that the Board would invite an applicant to submit, together with an application, a written request for a waiver that explains the basis for the request, the extent of the requirement(s) to be waived, and the time period requested, as well as the applicant's plan for coming into compliance with the relevant requirement(s) to be waived.

The proposed rule would also provide that, in the situation where an application has been denied and an applicant wishes to appeal that determination, an applicant must submit to the appropriate Federal Reserve Bank information specifying the reasons why the Board should reconsider its denial and provide supporting documentation necessary to reconsider the Board's decision. The applicant would be permitted to submit additional relevant information or documentation in advance of or during the hearing and must explain why such information was not provided prior to action on the application.

The information requested by the FR UU is necessary for the Board to fulfill its responsibilities under the GENIUS Act and the proposed Regulation UU to evaluate an application by an insured State member bank that seeks approval for a subsidiary to issue payment stablecoins, and to provide for a process for appealing of an initial determination denying an application submitted pursuant to the GENIUS Act.

Frequency: Event-generated.

Respondents: Insured State member banks that seek approval for a subsidiary to issue payment stablecoins.

Total estimated number of respondents:

Reporting

Sections 247.30(b) and (c) – 5.

Sections 247.31(a) and (b) – 1.

Estimated average hours per response:

Reporting

Sections 247.30(b) and (c) – 80.

Sections 247.31(a) and (b) – 5.

Total estimated annual burden hours: 405.

Total cost: \$30,112.

Current actions: The proposed rule would establish procedures to be followed by insured State member banks that seek to obtain Board approval for a subsidiary to issue payment stablecoins pursuant to the GENIUS Act. The Board is proposing to establish the information that is to be submitted by an insured State member bank that seeks approval for a subsidiary to issue payment stablecoins. The Board is also proposing to establish the information that is to be submitted by an insured State member bank that seeks to appeal an initial determination denying an application submitted pursuant to the GENIUS Act. Further, the Board is proposing to establish the information that is to be submitted by an insured State member bank that seeks to request a waiver of the requirements of the GENIUS Act. The information collected by the FR UU is necessary for the Board to fulfill its responsibilities under the GENIUS Act and the proposed Regulation UU to evaluate an application by an insured State member bank.

Methodology and assumptions: There is considerable uncertainty regarding the number of firms that would engage in the activities or make investments that would cause the firms to become subject to the requirements of this proposed rule. The Board is not aware of any method of determining the number of insured State member banks that will seek approval for a subsidiary to issue payment stablecoins, given that there are no such entities at this time and it is

difficult to predict how this market will develop. The Board considered the estimates of the number of PPSI respondents in the notices of proposed rulemaking issued by other Federal payment stablecoin regulators and the number of insured State member banks compared to the number of other IDIs. As a result, the Board assumes that five insured State member banks would seek approval for a subsidiary to issue payment stablecoins in the first few years after the finalization of the proposed rule. The population of insured State member banks that will seek approval for a subsidiary to issue payment stablecoins could be higher or lower depending on market demand, strategic operational choices of eligible institutions, and future developments in the digital landscape. For reporting, recordkeeping, and disclosure requirements that would apply to less than all such insured State member banks applicants under the rule (such as requirements that depend on actions or choices in the discretion of the insured State member bank), the Board assumes that one such insured State member bank would be subject to the requirement.

The burden hours estimated for each reporting, recordkeeping, or disclosure requirement reflects the amount of time the Board estimates will be expended by the relevant respondent to maintain, retain, or disclose or provide information to the Board. Where possible, the estimates were benchmarked against the estimates provided by other agencies in their notices of proposed rulemaking implementing the GENIUS Act and the estimates of burden for comparable or similar requirements in other of the Board's information collections. The total burden is calculated as the sum of the estimated average hours per response multiplied by the number of respondents for each reporting, recordkeeping, or disclosure requirement and frequency.

Total cost to the responding public is estimated using the following formula: total burden hours, multiplied by the cost of staffing, where the cost of staffing is calculated as a percent of time for each occupational group multiplied by the group's hourly rate and then summed (30%

Office & Administrative Support at \$25, 45% Financial Managers at \$90, 15% Lawyers at \$89, and 10% Chief Executives at \$130). Hourly rates for each occupational group are the (rounded) mean hourly wages from the Bureau of Labor Statistics (BLS).⁸² Occupations are defined using the BLS Standard Occupational Classification System.⁸³

Proposed Extension for Three Years, With Revision, of the Following Information Collection

Collection title: Interagency Notice of Change in Control, Interagency Notice of Change in Director or Senior Executive Officer, and Interagency Biographical and Financial Report.

Collection identifier: FR 2081a, b, and c.

OMB control number: 7100-0134.

General description of collection: The FR 2081a must be submitted in connection with the acquisition or, in certain circumstances, the retention of control of a State member bank (SMB), savings and loan holding company (SLHC), or bank holding company (BHC) (or group of BHCs or SLHCs) by an individual, a group of individuals, a company, or a group of companies that would not be BHCs or SLHCs after consummation of the proposed transaction. The notice must be submitted to the appropriate Federal Reserve Bank and include a description of the proposed transaction, the purchase price and funding source, the personal and financial information of the proposed acquirer(s), and any proposed new management.

The FR 2081b is used, under certain circumstances, to notify the appropriate Federal Reserve Bank of a proposed change to an institution's board of directors or senior executive

⁸² Occupational Employment and Wages, May 2025, published May 15, 2026, <https://www.bls.gov/news.release/ocwage.t01.htm>.

⁸³ <https://www.bls.gov/soc/>.

officers. The notice must be filed if the institution is not in compliance with all minimum capital requirements, is in troubled condition, or is otherwise required by the Board to provide such notice. The reporting form may be filed by the relevant SMB, SLHC, or BHC, or by the affected individual.

The FR 2081c is used by certain shareholders, directors, and executive officers in connection with the FR 2081a, FR 2081b; applications for BHC and SLHC formations, acquisitions, and mergers; applications by insured State member banks that seek Board approval for a subsidiary to issue payment stablecoins; and other filings. Information requested on this reporting form is subject to verification and requests for clarification or supplementation may be necessary. The FR 2081c requests the following information: (1) certain biographical information, such as personal information, employment records, education and professional credentials, and business and banking affiliations; (2) certain legal and related information; and (3) a financial report on the notificant, including a balance sheet, a cash flow statement, and various supporting schedules.

Frequency: Event-generated.

Respondents: SMBs, BHCs, SLHCs, and associated individuals.

Total estimated change in respondents: 15.

Total estimated number of respondents:

Reporting

FR 2081a – 168.

FR 2081b – 77.

FR 2081c – 981.

Recordkeeping

FR 2081a – 168.

Estimated average hours per response:

Reporting

FR 2081a – 17.

FR 2081b – 2.

FR 2081c – 5.

Recordkeeping

FR 2081a – 1.

Total estimated change in burden: 75.

Total estimated annual burden hours: 8,083.

Total cost: \$600,971.

Proposed revisions: The Board is proposing to revise the scope of the applications for which the FR 2081c is used by adding applications by insured State member banks that seek Board approval for a subsidiary to issue payment stablecoins, pursuant to Regulation UU. The information collected by the FR 2081c is necessary for the Board to fulfill its responsibilities under the GENIUS Act and the proposed Regulation UU to evaluate an application by insured State member banks that seek Board approval for a subsidiary to issue payment stablecoins. The Board is not proposing revisions to the FR 2081c instructions or reporting form at this time.

There are no proposed revisions to the FR 2081a or FR 2081b.

C. Regulatory Flexibility Act

The Board is providing an initial regulatory flexibility analysis (IRFA) with respect to this proposed rule. The Regulatory Flexibility Act (RFA),⁸⁴ requires an agency to consider the

⁸⁴ 5 U.S.C. 601 *et seq.*

impact of its proposed rules on small entities. Under regulations issued by the U.S. Small Business Administration (SBA), a small entity includes a depository institution, bank holding company, or savings and loan holding company with total assets of \$850 million or less.⁸⁵ For purposes of this section, any reference to “small” entities is a reference to this definition.

In connection with a proposed rule, the RFA requires an agency to prepare an initial regulatory flexibility analysis describing the impact of the rule on small entities, unless the head of the agency certifies that the proposed rule, if promulgated, will not have a significant economic impact on a substantial number of small entities and publishes such certification along with a statement providing the factual basis for such certification in the *Federal Register*. An IRFA must contain: (1) a description of the reasons why action by the agency is being considered; (2) a succinct statement of the objectives of, and legal basis for, the proposed rule; (3) a description of and, where feasible, an estimate of the number of small entities to which the proposed rule will apply; (4) a description of the projected reporting, recordkeeping, and other compliance requirements of the proposed rule, including an estimate of the classes of small entities that will be subject to the requirement and the type of professional skills necessary for preparation of the report or record; (5) an identification, to the extent practicable, of all relevant Federal rules which may duplicate, overlap with, or conflict with the proposed rule; and (6) a description of any significant alternatives to the proposed rule which accomplish its stated objectives and minimize any significant economic impact of the proposed rule on small entities.⁸⁶

⁸⁵ See 13 CFR 121.201. Consistent with the SBA’s General Principles of Affiliation, the Board includes the assets of all domestic and foreign affiliates toward the applicable size threshold when determining whether to classify a particular entity as a small entity. See 13 CFR 121.103.

⁸⁶ 5 U.S.C. 603(b)–(c).

The Board has considered the potential impact of the proposed rule on small entities in accordance with the RFA. Based on its analysis and for the reasons stated below, the proposal is not expected to have a significant economic impact on a substantial number of small entities. Nevertheless, the Board is publishing and inviting comment on this IRFA.

1. Reasons Why Action is Being Considered by the Board

The GENIUS Act was enacted in July 2025 to provide a framework for the regulation of payment stablecoins. The Act requires the Board to promulgate rules for processing applications from insured State member banks that seek approval for a subsidiary to issue payment stablecoins.⁸⁷ The GENIUS Act's effective date is the earlier of 18 months after the enactment date of July 18, 2025, or 120 days after the primary Federal payment stablecoin regulators issue any final regulations implementing the Act.

2. The Objectives of, and Legal Basis for, the Proposed Rule

The proposed rule would set out a process for insured State member banks to apply to the Board for prior approval for a subsidiary to issue payment stablecoins using the applications process and requirements set out in the GENIUS Act. The proposed rule would: (i) describe the scope of the application requirements; (ii) set out rules of procedure governing such applications; (iii) specify the information that applicants must submit; and (iv) establish a process governing the appeal, hearings, and final determination for applications. As required by statute, the proposal would establish a tailored application process that prioritizes the safety and soundness of the applicant, including its proposed Board-supervised PPSI subsidiary.⁸⁸

⁸⁷ 12 U.S.C. 5904(a)(2)(A).

⁸⁸ 12 U.S.C. 5904(a)(1).

3. Description of the Compliance Requirements of the Proposal and Estimate of the Number of Small Entities

As previously discussed, the proposed rule would apply to all insured State member banks that seek approval for a subsidiary to issue payment stablecoins. As of December 31, 2025, there were 703 insured State member banks.⁸⁹ Of those institutions, 439 are considered “small” for the purposes of RFA.⁹⁰

The Board recognizes considerable uncertainty regarding the number of firms that would engage in activities or make investments that would subject the firms to the requirements of this proposed rule. For this analysis, the Board estimates that between 5 and 10 insured State member banks may seek approval for a subsidiary to issue payment stablecoins. Given the early stages of the payment stablecoin market, this range accounts for uncertainty regarding the volume of future participants. The population of insured State member banks seeking such approval could be higher or lower depending on market demand, strategic operational choices of eligible institutions, and future developments in the digital landscape. By utilizing this range, the Board aims to establish an estimate that serves as the basis for evaluating the economic effects of the proposed rule, while acknowledging the inherent uncertainty resulting from a lack of historical precedent.

The Board expects that insured State member banks that are most likely to seek to form a Board-supervised PPSI subsidiary initially will be larger institutions with the compliance infrastructure and capital necessary to support payment stablecoin issuance. As such, the Board anticipates that most, if not all, insured State member banks seeking approval for a subsidiary to

⁸⁹ Call Report Data, December 31, 2025.

⁹⁰ Call Report Data, December 31, 2025.

issue payment stablecoins would not be small entities as defined by the SBA. Even assuming the unlikely scenario that all, i.e., the upper-bound number of 10 insured State member banks, would be small and that all 10 insured State member banks would be significantly impacted by the proposed rule, these impacted entities would comprise a very small percentage of small insured State member banks.

Applicants would expend 80 labor hours each to comply with the proposed application requirements. The proposed rule would result in application compliance costs of \$5,772 per small, Board-supervised institution, or \$28,860 in aggregate, on average.⁹¹

4. Consideration of Duplicative, Overlapping, or Conflicting Rules and Significant Alternatives to the Proposal

The Board is aware of no other Federal rules that duplicate, overlap, or conflict with the proposal. While other Federal and State regulators are required to adopt similar rules, each set of rules would apply to a different and defined scope of institutions. The GENIUS Act requires the Board to issue the rules described above.⁹² The Board is seeking comment on certain potential alternative approaches to discrete aspects of the final rule, as discussed elsewhere in this Supplementary Information, that would not significantly change the estimated economic impact of the proposed rule.

⁹¹ Total cost to the responding public is estimated using the following formula: total burden hours, multiplied by the cost of staffing, where the cost of staffing is calculated as a percent of time for each occupational group multiplied by the group's hourly rate and then summed (30% Office & Administrative Support at \$24, 45% Financial Managers at \$87, 15% Lawyers at \$88, and 10% Chief Executives at \$126). Hourly rates for each occupational group are the (rounded) mean hourly wages from the BLS, *Occupational Employment and Wages, May 2024*, published April 2, 2025, <https://www.bls.gov/news.release/ocwage.t01.htm>. Occupations are defined using the BLS Standard Occupational Classification System, <https://www.bls.gov/soc/>.

⁹² 12 U.S.C. 5904(a)(2)(A); *see also* 5 U.S.C. 552(a)(1).

5. Conclusion

Based on its analysis and for the reasons stated above, the Board believes that the proposed rule is unlikely to have a significant economic impact on substantial number of small entities. The Board welcomes comment on all aspects of its analysis. In particular, the Board requests that commenters describe the nature of any impact on small entities and provide empirical data to illustrate and support the extent of the impact. Additionally, the Board requests that commenters describe the number of small entities under the RFA and the impact on small entities.

D. Riegle Community Development and Regulatory Improvement Act of 1994

Pursuant to section 302(a) of the Riegle Community Development and Regulatory Improvement Act of 1994 (RCDRIA),⁹³ in determining the effective date and administrative compliance requirements for new regulations that impose additional reporting, disclosure, or other requirements on insured depository institutions,⁹⁴ each Federal banking agency must consider, consistent with principles of safety and soundness and the public interest, any administrative burdens that such regulations would place on affected depository institutions, including small depository institutions, and customers of depository institutions, as well as the benefits of such regulations. In addition, section 302(b) of the RCDRIA requires new regulations and amendments to regulations that impose additional reporting, disclosures, or other new requirements on insured depository institutions generally to take effect on the first day of a calendar quarter that begins on or after the date on which the regulations are published in final

⁹³ 12 U.S.C. 4802(a).

⁹⁴ For purposes of this analysis and consistent with RCDRIA, “insured depository institution” refers to the definition for that term used in section 3 of the FDI Act.

form. The Board invites comments that further will inform its consideration of the RCDRIA.⁹⁵

E. Providing Accountability Through Transparency Act of 2023

The Providing Accountability Through Transparency Act of 2023 (5 U.S.C. 553(b)(4)) requires that a notice of proposed rulemaking include the Internet address of a summary of not more than 100 words in length of the proposed rule, in plain language, that shall be posted on the Internet website under section 206(d) of the E-Government Act of 2002 (44 U.S.C. 3501 note).

In summary, the Board of Governors of the Federal Reserve System (Board) proposes to issue regulations that would establish procedures to be followed by an insured State member bank that seeks to obtain Board approval for a subsidiary to issue payment stablecoins pursuant to the Guiding and Establishing National Innovation for U.S. Stablecoins Act (GENIUS Act).

The proposal and such a summary can be found at <https://www.regulations.gov> and <https://www.federalreserve.gov/apps/proposals/>.

List of Subjects

12 CFR part 247

Administrative practice and procedure; Banks, banking; Federal Reserve System; Stablecoins, Stablecoin Issuers

12 CFR part 262

Administrative practice and procedure; Banks, banking; Federal Reserve System.

PART 247 – STABLECOINS (REGULATION UU)

1. The authority citation for part 247 reads as follows:

⁹⁵ 12 U.S.C. 4802(b).

Authority: 12 U.S.C. 248, 321–339a, 483, 602, 1818, 1828, 1831o, 1831p-1, and 5901 *et seq.*

2. Add Subpart A, consisting of §§ 247.1 through 247.9.

3. In Subpart A:

a. Add §§ 247.1 through 247.2 to read as follows; and

b. Reserve §§ 247.3 through 247.9.

Subpart A—Authority, Purpose, Scope, and Definitions

§ 247.1 Authority, purpose, and scope.

(a) *Authority.* This part is issued pursuant to the Guiding and Establishing National Innovation for U.S. Stablecoins (GENIUS) Act (12 U.S.C. 5901 *et seq.*).

(b) *Purpose and scope.* This part implements certain provisions of the GENIUS Act (12 U.S.C. 5901 *et seq.*). Subpart D implements section 5 of the GENIUS Act, which requires the Board to establish applications procedures applicable to insured State member banks seeking approval for a subsidiary to issue payment stablecoins.

§ 247.2 Definitions.

As used in this part:

Affiliate means a person that controls, is controlled by, or is under common control with another person.

Applicant means an insured State member bank that has submitted an application for a subsidiary to issue payment stablecoins pursuant to section 5 of the GENIUS Act and section 30 of this part.

Bank Secrecy Act means:

(1) section 21 of the Federal Deposit Insurance Act (12 U.S.C. 1829b);

(2) chapter 2 of title I of Public Law 91–508 (12 U.S.C. 1951 *et seq.*); and

(3) subchapter II of chapter 53 of title 31, United States Code and notes thereto (31 U.S.C. 5311 *et seq.*).

Board means the Board of Governors of the Federal Reserve System.

Board of directors means an entity’s board of directors or the group of individuals that serve the nearest equivalent function of acting as the governing body of an entity.

Board-supervised PPSI means a permitted payment stablecoin issuer supervised and regulated by the Board pursuant to the GENIUS Act (12 U.S.C. 5901 *et seq.*).

Control. A person controls another person if:

(1) the person directly or indirectly or acting through one or more other persons owns, controls, or has power to vote 25 percent or more of any class of voting securities of the other person;

(2) the person controls in any manner the election of a majority of the directors or trustees of the other person; or

(3) the Board determines, after notice and opportunity for hearing, that the person directly or indirectly exercises a controlling influence over the management or policies of the other person.

Deposit means “deposit” as defined in section 3 of the Federal Deposit Insurance Act (12 U.S.C. 1813(l)).

Director means an individual who serves on the board of directors of an entity, except an advisory director who:

(1) is not elected by the shareholders of the entity;

(2) does not have the authority to vote on matters before the board of directors or any committee of the board of directors; and

(3) provides solely general policy advice to the board of directors or any committee.

Immediate family means the spouse of an individual, the individual's minor children, and any of the individual's children (including adults) having their domicile in the individual's home.

Insured State member bank means a State member bank, the deposits of which are insured by the FDIC.

Officer means the president, chairman, chief executive officer, chief operating officer, chief financial officer, chief investment officer, chief risk officer, chief technology officer, and Bank Secrecy Act officer. The term includes any individual serving in the functional capacity of the listed titles or their equivalent, without regard to title, salary, or compensation. The term also includes any other person identified by the Board or appropriate Federal Reserve Bank, whether or not hired as an employee, with significant influence over, or who participates in, major policymaking decisions of the entity.

Payment stablecoin has the same meaning as in section 2(22) of the GENIUS Act (12 U.S.C. 5901(22)).

Permitted payment stablecoin issuer or *PPSI* has the same meaning as in section 2(23) of the GENIUS Act (12 U.S.C. 5901(23)).

Person has the same meaning as in section 2(24) of the GENIUS Act (12 U.S.C. 5901(24)).

Principal shareholder means a person who directly or indirectly or acting in concert with one or more persons, or together with members of their immediate family, will own, control, or hold the power to vote 10 percent or more of any class of voting securities of an entity, or any

person that the Board determines has the power, directly or indirectly, to exercise a controlling influence over the management or policies of an entity.

State has the same meaning as in section 2(28) of the GENIUS Act (12 U.S.C. 5901(28)).

State member bank means a State-chartered bank that has been approved for membership in the Federal Reserve System.

Subsidiary has the same meaning as in section 3 of the Federal Deposit Insurance Act (12 U.S.C. 1813(w)(4)).

Voting securities has the same meaning as in 12 CFR 225.2.

3. Add and reserve Subpart B, consisting of §§ 247.10 through 247.19.

4. Add and reserve Subpart C, consisting of §§ 247.20 through 247.29.

5. Add Subpart D, consisting of §§ 247.30 through 247.39.

6. In Subpart D:

a. Add §§ 247.30 through 247.31 to read as follows; and

b. Reserve §§ 247.32 through 247.39.

Subpart D—Applications by Insured State Member Banks for a Subsidiary to Issue Payment Stablecoins

§ 247.30 Applications by insured State member banks.

(a) *Transactions requiring Board approval.* An insured State member bank must receive the prior written approval of the Board for a PPSI subsidiary to issue payment stablecoins pursuant to 12 U.S.C. 5901 et seq.

(b) *Applications.*—(1) *In general.* An application for the Board’s prior approval under 12 U.S.C. 5904 shall be governed by the provisions of this section. The application must be submitted in the form of a letter, together with enclosures and a table of contents for all

materials, and shall be filed with the appropriate Federal Reserve Bank. The Federal Reserve Bank shall promptly send a copy of the application to the Board.

(2) *Contents of application.* An application submitted under 12 U.S.C. 5904 and this section must be signed by a duly authorized agent of the applicant. The application must describe the proposal, including all relevant facts, and the action requested. The application must indicate the reasons why the application should be approved, addressing the factors set out in 12 U.S.C. 5904(c) and paragraph (d) of this section. The application must include, at a minimum, the following information:

(i) *Business Plan.* A proposed business plan that includes descriptions of (A) the proposed business model, including the proposed products, services, and activities of the proposed Board-supervised PPSI, and the legal basis under applicable Federal and State law for each proposed activity; (B) contemplated affiliate transactions and relationships, including a description of how the proposed Board-supervised PPSI would be controlled by the applicant; (C) the proposed organizational and governance structure; (D) any material third-party relationships; (E) identities, roles, and responsibilities of all entities involved in the proposed related activities; and (F) how the proposed Board-supervised PPSI would maintain compliance with the key requirements of 12 U.S.C. 5901 et seq. and this part.

(ii) *Financial Information.* Financial information relevant to the proposed Board-supervised PPSI, including (A) a description of how the issuer would be funded initially and on an ongoing basis, including whether it is anticipated that an applicant or any individual would make a financial guarantee or otherwise act to financially support the proposed Board-supervised PPSI (including any related intercompany agreements); (B) projected stablecoin reserve assets and their composition; (C) reserve management plans; and (D) financial projections, with

accompanying assumptions, for the first three years of operations for the proposed Board-supervised PPSI.

(iii) *Policies and Procedures.* Any relevant policies and procedures; customer agreements, terms of use, or other disclosures provided to customers; agreements with affiliates or third parties; or other information that would be necessary for evaluating the application, including those relating to (A) redemption; (B) maintenance of required reserve assets; (C) custody of customer assets; (D) recordkeeping, reconciliation, and transaction processing; and (E) compliance with Bank Secrecy Act, sanctions compliance program, anti-money laundering, and countering the financing of terrorism requirements.

(iv) *Capital Structure.* If the proposed Board-supervised PPSI is not wholly owned by the applicant, documentation regarding the capital structure of the proposed Board-supervised PPSI, including the shares of each class of securities and total equity controlled by each shareholder on a fully diluted and undiluted basis, general background information for each shareholder controlling more than five percent of voting securities, and the organizational documents and other agreements governing the securities of the proposed Board-supervised PPSI.

(3) *Biographical report.*—(i) Any principal shareholder other than the applicant, as well as the top two decision-makers of the proposed Board-supervised PPSI, must submit the Biographical Report and Certification sections of the Interagency Biographical and Financial Report—FR 2081c and biometric information for background checks. An applicant may identify the top two decision-makers of the proposed Board-supervised PPSI; however, the Board reserves the right to determine that other persons are the top two decision-makers.

(ii) The Board may, in its discretion, seek additional biographical or personal financial information with respect to officers, directors, and principal shareholders of a PPSI, its

subsidiaries, or its parent companies as necessary to evaluate the factors described in 12 U.S.C. 5904(c) and paragraph (d) of this section.

(iii) The Board may, in its discretion, waive the requirement in paragraph (b)(3)(i) of this section.

(4) Certifications.

(i) All officers and directors of the proposed Board-supervised PPSI must submit a certification that they have not been convicted of a felony offense involving insider trading, embezzlement, cybercrime, money laundering, financing of terrorism, or financial fraud.

(ii) An authorized representative of the applicant must certify in writing that the filing submitted to the Board, including any supporting materials, contains no material misrepresentation or omissions. The Board may review and verify any information filed in connection with a notice or an application. Any person responsible for any material misrepresentation or omission in a filing or supporting materials may be subject to enforcement action and other penalties, including criminal penalties provided in 18 U.S.C. 1001.

(5) Additional Information. The Board may, at any time, request additional information that the Board, in its sole discretion, deems necessary for evaluating the factors the Board must consider under 12 U.S.C. 5904(c) and paragraph (d) of this section.

(c) Completeness.—(1) In general. For purposes of this section, an application shall be considered substantially complete if the application contains sufficient information for the Board to render a decision on whether the applicant satisfies the factors described in 12 U.S.C. 5904(c) and paragraph (d) of this section. An application would not be considered substantially complete if the applicant has omitted any information necessary for evaluating the factors the Board must consider under 12 U.S.C. 5904(c) and paragraph (d) of this section.

(2) *Material change.* An application considered substantially complete remains substantially complete unless there is a material change in circumstances that requires the Board to treat the application as a new application. An application that has been considered substantially complete may be considered to be no longer be substantially complete if the Board becomes aware that, due to a material change in circumstances, the information received is no longer sufficient for the Board to evaluate all factors that the Board must consider under 12 U.S.C. 5904(c) and paragraph (d) of this section.

(3) *Notification.* Not later than 30 days after the appropriate Federal Reserve Bank receives an application under this section, the Board shall notify the applicant as to whether the Board considers the application to be substantially complete. If the Board does not believe the application is substantially complete, the Board will specify the additional information the applicant must provide in order for the application to be considered substantially complete.

(4) *Date of receipt.* For purposes of this section, information submitted within business hours on a business day in the time zone of the appropriate Federal Reserve Bank will be deemed to have been received by the appropriate Federal Reserve Bank on that day. Information submitted on a non-business day or outside business hours would be deemed to be received on the next business day.

(d) *Factors to be considered.* The Board shall consider the following factors when evaluating an application under subsection (a):

(1) The ability of the proposed Board-supervised PPSI, based on financial condition and resources, to meet the requirements set forth under 12 U.S.C. 5903.

(i) Until such time as final capital requirements pertaining to Board-supervised PPSIs become effective, an applicant must demonstrate that the proposed Board-supervised PPSI would

have sufficient initial capital, net of any organizational expenses that would be charged to the proposed Board-supervised PPSI's capital after it begins operations, to support its projected volume and type of business as outlined in its business plan.

(2) Whether an individual who has been convicted of a felony offense involving insider trading, embezzlement, cybercrime, money laundering, financing of terrorism, or financial fraud is serving as an officer or director of the proposed Board-supervised PPSI.

(3) The competence, experience, and integrity of the officers, directors, and principal shareholders of the proposed Board-supervised PPSI, its subsidiaries, and parent companies of the applicant, including—

(i) the record of those officers, directors, and principal shareholders of compliance with laws and regulations; and

(ii) the ability of those officers, directors, and principal shareholders to fulfill any commitments to, and any conditions imposed by, the Board in connection with the application at hand and any prior applications.

(4) whether the redemption policy of the proposed Board-supervised PPSI of the applicant meet the standards under 12 U.S.C. 5903(a)(1)(B).

(e) *Timing for decision.*—(1) Not later than 120 days after receiving a substantially complete application under this section, the Board shall render a decision on the application.

(2) If the Board fails to render a decision on a complete application within the time period specified in paragraph (e)(1) of this section, the application shall be deemed approved.

(f) *Denial.*—(1) *Grounds for denial.* The Board shall only deny a substantially complete application received under this section if the Board determines that the activities of the applicant, including the activities of the proposed Board-supervised PPSI, would be unsafe or unsound

based on the factors described in 12 U.S.C. 5904(c) and paragraph (d) of this section.

Inconsistency with any one of the factors in 12 U.S.C. 5904(c) or paragraph (d) of this section may be sufficient to warrant denial to the extent that the activities of the applicant, including the activities of the proposed Board-supervised PPSI, would be unsafe or unsound.

(2) *Explanation.* If the Board denies a complete application received under this section, not later than 30 days after the date of such denial, the Board shall provide the applicant with written notice explaining the denial with specificity, including all findings made by the Board with respect to all identified material shortcomings in the application, including actionable recommendations on how the applicant could address the identified material shortcomings.

(g) *Conditional approvals.* The Board may impose conditions on any approval, including conditions to address financial, managerial, safety and soundness, compliance or other concerns, to ensure that approval is consistent with the relevant statutory factors and other provisions of the GENIUS Act.

(h) *Reservation of authority.* The Board may, in exceptional circumstances and to the extent consistent with the GENIUS Act, waive the requirements in this section or adopt different procedures.

* * * * *

§ 247.31 Opportunity for Hearing and Final Determination

(a) *Request for hearing.* Not later than 30 days after the date on which the applicant receives a notice denying an application under § 247.30(f), the applicant may submit a written request to the appropriate Federal Reserve Bank, requesting an opportunity for a written or oral hearing before the Board to appeal the denial. The written request must specify the reasons why

the Board should reconsider its denial, addressing the factors the Board may consider under paragraph (c) of this section, and provide any supporting documentation.

(b) *Timing.*—(1) *Generally.* Upon receipt of a timely request under paragraph (a) of this section, the Board shall notice a time, not later than 30 days after the Board receives the request, and place at which the applicant may appear, personally or through counsel, to submit written materials or provide oral testimony and oral argument.

(2) *Deadline to submit information.* The applicant must submit all written materials, arguments, and relevant documentation to the appropriate Federal Reserve Bank on or before the time of the hearing. To the extent the applicant provides new information, the applicant must explain why such information was not provided prior to the date of action on the application. The Board may, in its discretion, consider any written materials, arguments, or relevant documentation submitted after the time of the hearing.

(c) *Standard for approval of application.* The Board may approve an application that was denied under § 247.30(f)—

(1) if an applicant presents relevant facts that, for good cause shown, were not previously presented to the Board, and that, based on such new information, the application is consistent with approval under the statutory factors; or

(2) for any other reason the Board determines justifies relief.

(d) *Final determination.*—(1) *Notice after oral or written hearing.* Not later than 60 days after the time of the hearing under this section, the Board shall notify the applicant of a final determination, which shall contain a statement of the basis for that determination, with specific findings.

(2) *Notice if no hearing.* If an applicant does not make a timely request for a hearing under paragraph (a) of this section, the Board shall notify the applicant, not later than 10 days after the date by which the applicant may request a hearing under paragraph (a), in writing, that the denial of the application is a final determination of the Board.

(e) *Right to reapply.* The denial of an application shall not prohibit an applicant from filing a subsequent application.

* * * * *

PART 262 – RULES OF PROCEDURE

7. The authority citation for part 262 continues to read as follows:

Authority: 5 U.S.C. 552; 12 U.S.C. 248, 321, 325, 326, 483, 602, 611a, 625, 1467a, 1828(c), 1842, 1844, 1850a, 1867, 3105, 3106, 3108, 5361, 5368, 5467, 5469, and 5904.

7. In § 262.3, add paragraph (m) to read as follows:

§ 262.3 Applications.

* * * * *

(m) This section does not apply to applications by an insured State member bank for a subsidiary to issue payment stablecoins. For special rules governing procedures for applications by a State member bank seeking to establish or acquire control of a payment stablecoin issuer pursuant to 12 U.S.C. 5901 et seq., refer instead to §§ 247.30 and 247.31 of this title.

* * * * *

By order of the Board of Governors of the Federal Reserve System.

(signed) Michele Taylor Fennell

Michele Taylor Fennell,
Associate Secretary of the Board.