



bankers' compliance group®

## Not So Fast – State Member Banks to Obtain Fed's Approval to Issue Stablecoins\*

On August 8, 2023, the Federal Reserve Board (FRB) notified its state member banks that it must first obtain written notification of supervisory nonobjection from the agency before issuing, holding, or transacting in dollar tokens (or stablecoins) used to facilitate payments. In its supervisory letter, the FRB outlined the supervisory nonobjection process for member banks seeking to engage in transactions involving distributed ledger technology or similar technologies to facilitate payments. In the same letter, the FRB also announced the creation of the Novel Activities Supervision Program, formed to enhance state member banks' activities related to such transactions.

***The Supervisory Nonobjection Process.*** State member banks seeking to engage in dollar token (also referred to as "stablecoin") activities, including even just for the purpose of testing, must notify its lead supervisory point of contact at the FRB of its intention to engage in the proposed activity with a description of the proposed activity.

To obtain a written notification of supervisory nonobjection, a state member bank should demonstrate that it has established appropriate risk management practices for the proposed activities, including having adequate systems in place to identify, measure, monitor, and control the risks of its activities, and the ability to do so on an ongoing basis. FRB staff will focus on the operational risks, cybersecurity risks, liquidity risks, illicit finance risks, as well as consumer compliance risks, when determining whether to issue a written notification of supervisory nonobjection.

After receiving a written notification of supervisory nonobjection, state member banks will continue to be subject to supervisory review and heightened monitoring of these activities.

***Novel Activities Supervision Program.*** The FRB also established a new supervision program that will apply a risk-based approach to supervising banking organizations to the extent they are engaged in novel activities, such as activities related to crypto-assets, distributed ledger technology, as well as complex, technology-driven partnerships with nonbanks to deliver financial services.

The Novel Activities Supervision Program "will work within existing supervisory portfolios and alongside existing supervisory teams." According to the FRB, "the goal of the novel activities supervision program is to foster the benefits of financial innovation while recognizing and appropriately addressing the risks to ensure the safety and soundness of the banking system."

The FRB's announcement of the supervisory nonobjection process and its new Novel Activities Program can be found at the following link: <https://www.federalreserve.gov/news-events/pressreleases/bcreg20230808a.htm>.

For more information about these developments, contact Joel Cook at [JCook@ABLawyers.com](mailto:JCook@ABLawyers.com).

Copyright © 2023  
Aldrich & Bonnefin, PLC\*  
All Rights Reserved

**\*Advertisement. This information is not, nor is it intended to be, legal advice. You should consult an attorney for advice regarding your individual situation. Contacting Aldrich & Bonnefin PLC does not create an attorney-client relationship. Please do not send any confidential information to us until such time as an attorney-client relationship has been established. Janet Bonnefin is retired from the practice of law with the firm.**