June 9, 2026

Jennifer M. Jones
Deputy Executive Secretary
Federal Deposit Insurance Corporation
550 17th Street NW, Washington, DC 20429

RE: **Comments—RIN 3064-AG19, GENIUS Act Requirements and Standards for FDIC-Supervised Permitted Payment Stablecoin Issuers and Insured Depository Institutions**

Dear Ms. Jones,

The Independent Community Bankers of America ("ICBA")[1] welcomes the opportunity to provide comments on the Federal Deposit Insurance Corporation's ("FDIC") notice of proposed rulemaking ("NPR") to implement the Guiding and Establishing National Innovation for U.S. Stablecoins Act ("GENIUS Act")[2] requirements applicable to FDIC-supervised insured depository institutions ("IDI") that engage in payment stablecoin-related activities and are permitted payment stablecoin issuers ("PPSI"), to clarify deposit insurance coverage for deposits held as reserve assets for payment stablecoins, and to clarify the treatment of tokenized deposits.[3]

The stakes for community banks and the Main Street economies they serve are high

Community bankers are deeply concerned that adoption of payment stablecoins at scale would draw core deposits out of community banks, replacing them with less stable and less lendable funding structures, and thereby reducing the credit available to U.S. consumers, small businesses, farms, ranches, and rural and local communities. ICBA and third-party research, including analysis by several Federal Reserve Banks indicates that adoption of payment stablecoins at scale is likely to cause more than $1 trillion in deposits to leave community banks resulting in a reduction of community bank lending capacity by as much as $850 billion.

[1] The Independent Community Bankers of America® has one mission: to create and promote an environment where community banks flourish. We power the potential of the nation's community banks through effective advocacy, education, and innovation. As local and trusted sources of credit, America's community banks leverage their relationship-based business model and innovative offerings to channel deposits into the neighborhoods they serve, creating jobs, fostering economic prosperity, and fueling their customers' financial goals and dreams. For more information, visit ICBA's website at www.icba.org.
[2] GENIUS Act, Pub. L. No. 119-27, 129 Stat. 419 (2025).
[3] GENIUS Act Requirements and Standards for FDIC-Supervised Permitted Payment Stablecoin Issuers and Insured Depository Institutions, 91 *Fed. Reg.* 18534 (Apr. 10, 2026) (to be codified at 12 C.F.R. pts 324, 330, 350).

866-843-4222
icba.org
1100 New York Avenue NW
Suite 500 East
Washington, DC 20005
518 Lincoln Road
P.O. Box 267
Sauk Centre, MN 56378

ICBA urges the FDIC to treat this adverse outcome as a significant economic and prudential risk for the nation's community banks and the economy. Deposit losses on the scale modeled in this letter could weaken funding stability, constrain community bank lending capacity, and accelerate the concentration of credit intermediation in a smaller number of institutions. The resulting effect would be reduced credit availability for the small businesses, households, farms, and rural communities that depend on community banks. These profound risks warrant prompt and coordinated consideration of alternatives that would preserve deposits within the banking system and maintain the essential lending function community banks provide.

The policy options are clear: regulators either act now to support bank-based digital payment alternatives, including tokenized deposits, or risk greater migration of deposits, credit creation, and economic opportunity away from community banks and into a more concentrated U.S. financial system. Community banks have a strong interest in innovations that enhance payment functionality while preserving deposits within the banking system and supporting continued credit availability in local communities. ICBA therefore welcomes continued engagement with the FDIC on measures to mitigate the disintermediation risks posed by payment stablecoins while supporting innovations, including tokenized deposits, that modernize payments without undermining community bank funding and credit creation.

The FDIC Should Provide a Meaningful Opportunity for Public Comment Before Finalizing the Rule

The NPR, and several separate GENIUS Act rulemakings recently initiated by other federal agencies, are materially dependent upon the content of a GENIUS Act final rule not yet adopted by the Office of the Comptroller of the Currency ("OCC").[4] Notice and comment rulemaking pursuant to the Administrative Procedure Act must provide a genuine opportunity for the public to analyze and critique an agency's basis for action and must provide fair opportunity to evaluate the basis of an agency's proposed rule.[5] The NPR could not provide a meaningful notice and comment opportunity because a critical regulatory predicate, the content of the final OCC rule, is unknown. Due to the NPR's dependency upon the final rule yet to be issued by the OCC, and the short timeframe for providing comments, on April 21, 2026, together with other national banking trade associations whose members have significant interest in GENIUS Act rulemakings, ICBA requested that the FDIC extend the comment period for the NPR until 60

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[4] Implementing the Guiding and Establishing National Innovation for U.S. Stablecoins Act for the Issuance of Stablecoins by Entities Subject to the Jurisdiction of the Office of the Comptroller of the Currency, 91 *Fed. Reg*. 10202 (Mar. 2, 2026) (to be codified at 12 C.F.R. pts. 3,6,8,15,19). The comment period ended on May 1, 2026.

[5] *See Chamber of Commerce v. SEC*, 412 F.3d 133 (D.C. Cir. 2005) (addressing the SEC's failure to adequately consider costs and alternatives under the APA); *Chamber of Commerce v. SEC*, 443 F.3d 890 (D.C. Cir. 2006) (holding that the SEC failed to provide adequate opportunity for public comments on certain aspects of the rule after remand of the immediately preceding 2005 case); *Connecticut Light & Power Co. v. NRC*, 673 F.2d 525, 529 (D.C. Cir. 1982) ("The opportunity to comment is meaningless unless the agency discloses the data and other information upon which it relies." Commenters must have access to the information necessary for meaningful commentary before the comment period closes.); *Home Box Office, Inc. v. FCC*, 567 F.2d 9 (D.C. Cir. 1977) (rulemaking must expose the basis of agency action to public scrutiny); *Owner-Operator Independent Drivers Ass'n v. FMCSA*, 494 F.3d 188 (D.C. Cir. 2007) (interested parties must have an opportunity to comment on material underlying the agency's proposal); *Am. Radio Relay League, Inc. v. FCC*, 524 F.3d 227 (D.C. Cir. 2008) (notice and comment cannot function if critical information is unavailable during the comment period).

days after the OCC issues a final rule implementing the GENIUS Act.[6] This extension of time would enable ICBA, its member institutions, and interested members of the public to prepare carefully considered and well-informed comments in response to the NPR and would also enable the FDIC to create a complete rulemaking record.

Providing only sixty days to assess hundreds of questions in the NPR that have significant implications for community bank funding, payments, supervision, and credit creation—especially where those questions overlap with other complex GENIUS Act rulemakings—creates serious risks of underdeveloped analysis, inconsistent regulatory outcomes, and missed interactions across the emerging regulatory framework for issuing payment stablecoins. The inadequate timeframe for providing comments on such a significant and complicated novel rule has made it impossible for ICBA to comment on every aspect of the NPR and raises substantial due process questions.

The OCC's forthcoming final rule is a critical predicate for providing meaningful comments on the NPR, as specifically acknowledged by the FDIC in the NPR inviting comment "on the extent to which the primary Federal payment stablecoin regulators should further align in their final rules to promote consistency of regulations applicable to all PPSIs subject to the GENIUS Act."[7] Meaningful comment on this alignment is impossible without knowing the content of the OCC's final rule. The NPR's operation, costs, obligations, and consequences depend upon the content of the OCC's final rule, and that content is unavailable during the comment period for the NPR.

Because essential information is unavailable until after the close of the comment period, the final rule following the NPR should not be considered a logical outgrowth of the notice and comment provided. As long as the predicate regulatory standards in the final OCC rule remain unknown, it does not appear that commenters could estimate costs or impacts with accuracy or that the FDIC could conduct fulsome cost-benefit and other required regulatory analyses, including under the Regulatory Flexibility Act.[8]

ICBA recommends the FDIC consider that key aspects of the regulatory framework for the GENIUS Act that may impact the content of a final FDIC rule are unknown to commenters, and afford commenters with meaningful opportunity to provide additional comments as the FDIC and other federal agencies adopt final rules to implement the GENIUS Act. ICBA submits that the NPR has significant consequences for payment innovation, deposit stability, credit allocation, and the long-term structure and operation of the U.S. banking system. The FDIC should coordinate closely with the agencies responsible for implementing parts of the GENIUS Act as the payment stablecoin framework is finalized to ensure that this framework preserves the

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[6] Joint Letter Requesting Extension of Comment Period for GENIUS Act Proposed Rule (Mar. 10, 2026), https://www.icba.org/w/joint-letter-requesting-extension-of-comment-period-for-genius-act-proposed-rule. This request for an extension of the comment period was sent to the Treasury Department, FinCEN and OFAC at the same time with respect to their extant notices of proposed rulemaking.

[7] GENIUS Act Requirements and Standards for FDIC-Supervised Permitted Payment Stablecoin Issuers and Insured Depository Institutions, *supra* note 3.

[8] ICBA members include small banking organizations, defined by the Small Business Administration as having less than $850 million in assets.

benefits of a diverse banking system in which thousands of community banks support local deposit relationships and local credit formation.

Roadmap for ICBA's Recommendations for the FDIC to Implement the GENIUS Act

ICBA offers the following recommendations to guide the FDIC's development of a final rule:

1) Provide an additional opportunity for public comment before finalizing the rule, given the NPR's dependence on unresolved OCC rulemaking and the need for a complete administrative record.

2) Adopt a strict payment stablecoin framework that safeguards community banks, the banking system, and the Deposit Insurance Fund ("DIF") by closing definitional gaps, preserving statutory redemption protections, preventing evasions of the prohibition on payment of yield, and imposing strong capital and risk-management requirements on PPSIs.

3) Confirm that payment stablecoin reserve deposits are not eligible for pass-through deposit insurance and ensure that the bank-funded DIF is not used to subsidize payment stablecoin activity.

4) Quickly address tokenized deposits through a coordinated interagency process beginning with a Request for Information and, as necessary, a separate rulemaking developed with the OCC and the Board of Governors of the Federal Reserve System ("Federal Reserve").

5) Support a technology-neutral and community-bank-accessible approach to tokenized deposits by accommodating consortium and third-party partner models, addressing settlement and supervisory coordination, and beginning with a deliberate pilot framework rather than broad deployment.

ICBA's comments are organized into four parts. Part I provides economic analysis of the potentially devastating impacts stablecoins are likely to have on community banks, their customers, and their communities, including a drastic decrease in the availability of credit for U.S. consumers, small businesses, and farmers in rural communities across the country and greater concentration in the U.S. banking system as deposits and lending capacity move away from community banks toward larger banks. Part II addresses the NPR's proposed framework for the regulation of payment stablecoins. Part III addresses the NPR's proposed treatment of deposit insurance coverage for payment stablecoin reserve deposits. Part IV addresses the NPR's treatment of tokenized deposits.

PART I: ECONOMIC ANALYSIS

Payment stablecoins convert sticky retail deposits into large buckets of wholesale deposits or high-quality liquid assets that can create profound adverse impacts for community banks, their customers, and local communities across the country. The NPR minimizes the serious potential for these adverse effects by describing the range of benefits the FDIC believes will result from expansion of payment stablecoins while stating only that the regulatory framework may lead to

"indirect effects across the banking system" such as customers moving their deposits into payment stablecoins, thus altering "the nature of deposits across the banking system."[9] The NPR speculates that any negative impacts could be reduced by gathering deposits from "individuals and entities outside of the regulated banking system," including digital payment users who do not already have a bank account and individuals in foreign jurisdictions that want access to U.S. dollars.[10] The NPR indicates that the FDIC "does not have the data to estimate the net effect on deposits resulting from the proposed rule," stating that several factors would shape the ultimate future of the development and rate of stablecoin adoption and the strategic responses of institutions that use current payment technologies.[11]

ICBA is concerned that the FDIC does not recognize the potential adverse consequences of the NPR for community banks and the American economy. These adverse consequences can and must be considered by the FDIC in developing proposed and final regulations to implement the GENIUS Act; indeed, among other requirements, the Administrative Procedure Act requires reasoned consideration of the impacts of the NPR and the Regulatory Flexibility Act requires identification and assessment of the impacts of the NPR on community banks with $850 million or less in assets. These requirements mandate the FDIC's consideration of whether its GENIUS Act implementation choices unnecessarily disadvantage community banks and whether less burdensome alternatives are available.

The NPR wholly fails to address the far-reaching adverse impacts on the ability of community banks to provide credit to local consumers, businesses, and farmers consequent to the shifting of deposits from community banks to payment stablecoins. The FDIC's failure to recognize these harmful effects rests on mere conjecture that implementation of the NPR could attract a new set of participants into the banking system bringing deposits from users of payment apps that do not already have bank accounts and/or foreign demand for payment stablecoins. This premise is deeply flawed for two reasons:

1) According to the FDIC's own research, nearly every American household has access to a bank account, so the number of digital payment app users without a bank account is not large enough to introduce significant new sources of deposits.[12] Additionally, the same FDIC research indicates that most unbanked individuals rely on cash, not payment apps.
2) Foreign demand is speculative, and if it does occur, there is no guarantee that it would offset damaging shocks. Instead, the more likely scenario is that these funds would either flow into the largest banks as wholesale, uninsured deposits, or they would exit the U.S. banking system entirely if they flow into non-bank PPSIs that keep minimal amounts of their reserves as bank deposits. The result would be an imbalanced U.S.

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[9] GENIUS Act Requirements and Standards for FDIC-Supervised Permitted Payment Stablecoin Issuers and Insured Depository Institutions, *supra* note 3.
[10] *Id*.
[11] *Id*.
[12] Ryan Goodstein, *A Closer Look at the Unbanked: Cash-Only Households Versus Those That Use Prepaid Cards or Nonbank Payment Apps*, Federal Deposit Insurance Corporation, *Consumer Research Perspectives* (July 2024), https://www.fdic.gov/system/files/2024-08/cash-only.pdf.

banking system in which the largest, too-big-to-fail banks grow even larger, while community banks are exposed to higher wholesale funding costs which would impair their lending capabilities.

The following section presents ICBA's modeling of the effects of payment stablecoin growth on the banking system, showing the effects on community banks. We are providing this analysis to directly address the statement in the NPR that the FDIC lacks sufficient data to estimate the impact of payment stablecoins on community banks. **The central conclusion is clear: community banks face severe adverse impacts whether payment stablecoins are issued by a non-bank PPSI or a bank-established PPSI subsidiary.**

The NPR states that only a small number of FDIC-supervised banks—perhaps between five and thirty such banks—will likely create a payment stablecoin subsidiary.[13] While ICBA does not dispute this estimate for the first wave of applications, we submit that the absolute number of such issuing subsidiaries is not the relevant measure of systemic impacts. **Even a small number of bank-established PPSIs could attract deposits from across the banking system and cause a significant reallocation of funding away from community banks. The relevant policy question is not how many subsidiaries are formed. Rather, the relevant policy questions are what amount of deposit migration these subsidiaries induce, how that deposit migration affects lending capacity, and whether any resulting benefits are concentrated in a small number of large institutions.** The analysis below addresses those policy questions directly.

A. What impact would the NPR have on credit creation? How can the FDIC minimize any negative impact to credit creation?

Payment stablecoin adoption at scale will reduce bank lending under any regulatory framework. The key policy question is not whether banks' credit creation will decline, but rather how large the decline will be and how the costs will be distributed across the U.S. banking system. At a baseline market size of $1.2 trillion (which is consistent with a payment stablecoin market in which yield or yield-equivalent rewards are prohibited), ICBA estimates that lending at community banks would fall by $141 billion, or four percent, based on credible estimates from leading researchers on stablecoin-linked disintermediation. On the other hand, if payment stablecoin issuers are permitted to offer yield or yield-equivalent rewards (or if the existing prohibition fails to prevent such rewards due to decentralized ("DeFi") wrapper loopholes), the payment stablecoin market is likely to grow to $3–5 trillion and cause community bank lending to fall by $850 billion. **This is equivalent to placing at risk roughly one in five dollars currently lent by community banks to farms, small businesses, and other borrowers**.

We assess the impact on credit creation in four steps:

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[13] GENIUS Act Requirements and Standards for FDIC-Supervised Permitted Payment Stablecoin Issuers and Insured Depository Institutions, 91 Fed. Reg. 18534 (Apr. 10, 2026) (to be codified at 12 C.F.R. pts. 324, 330, 350).

- First, we establish estimates for a baseline scenario of stablecoin market growth in which stablecoins are restricted to a payments-only environment (i.e., stablecoins are used solely for transactions with no yield or yield-equivalent features) and deposit flight is the primary driver of lending losses. This scenario captures the impact of deposit substitution (i.e., consumers replacing traditional bank deposits with stablecoins) and wholesale funding costs (i.e., the increased cost banks face when replacing lost retail deposits with more expensive market-based borrowing), but excludes the additional effects of issuer reserve recycling (i.e., stablecoin issuers reinvesting the assets that back their tokens into the banking system).
- Second, we show how relaxing the current prohibition against yield or yield-equivalent rewards intensifies the negative impact on bank lending compared to the baseline. Permitting yield, either directly or indirectly, shifts stablecoins from a payments substitute to a store-of-value competitor. This dramatically expands the size of the stablecoin market and drives up the degree of deposit substitution.
- Third, we establish how stablecoin issuer reserves impact bank lending. Empirical evidence suggests that even reserves held directly as bank deposits tend not to translate into additional lending, as the intraday liquidity demands of stablecoin issuers require partner banks to hold those funds in reserve rather than deploy them as loans.
- Fourth, we evaluate whether issuer reserve growth offsets deposit flight through T-bill and repurchase agreement (repo) recycling. While stablecoin reserves do re-enter the financial system, the benefits are uneven. Recycling, primarily through issuer purchases of U.S. Treasuries, partially offsets deposit flight for large banks that participate in U.S. Treasury markets. However, since community banks typically do not operate as dealers, they receive little of the recycling benefit.

The ultimate impact of payment stablecoin adoption at scale is a more concentrated banking system. As the market for payment stablecoins grows, deposits and lending capacity shift from community banks toward larger institutions. This matters because community banks are not interchangeable with large banks. Community banks are vital partners to U.S. small businesses, farmers, and rural communities, accounting for 81% of farm real estate debt held by commercial banks and 74% of operating debt,[14] and representing over 71% of all bank branches in rural areas.[15] These impacts illustrate that the diversity of the U.S. banking system—highlighted by thousands of community banks spread across the nation—is the bedrock of the nation's economy that policymakers should continue to preserve and promote.

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[14] Matt Hanauer, Brent Lytle, Chris Summers, and Stephanie Ziadeh, *Community Banks and Agricultural Lending*, Federal Reserve Bank of Kansas City Econ. Rev., Vol. 106, No. 2 (2021), https://www.kansascityfed.org/Economic%20Review/documents/8159/EconomicReviewV106N2HanauerLytleSummersZiadeh.pdf.

[15] FDIC, *2020 Community Banking Study* (Dec. 2020), https://www.fdic.gov/resources/community-banking/report/2020/2020-cbi-study-full.pdf.

1. In a Baseline $1.2T Stablecoin Market, Deposit Flight Drives Lending Loss

This section of ICBA's comments describes the baseline effects under a payment stablecoin regime as framed in the GENIUS Act. Under the baseline regime, payment stablecoins are primarily used as a payment medium, stablecoin issuers do not have access to Federal Reserve master accounts, and interest payments on payment stablecoins are prohibited. Products that are functionally equivalent to yield, such as exchange rewards or yield-bearing wrappers are not considered in the baseline effects, though their likely effect on bank disintermediation is discussed in section 2 of this Part of our letter.

As a medium of exchange, stablecoins compete directly with the transaction balances households and businesses hold at banks, attracting deposits through their programmability, settlement speed, and portability. ICBA estimates that deposit flight of this nature could reduce lending by $269 billion at a baseline stablecoin market size of $1.2 trillion, with community banks bearing $141 billion of that loss (see Table 1).

These estimates are grounded in a macroeconomic model developed by Whited, Wu, and Xiao (2023)[16], which analyzes how the introduction of a central bank digital currency ("CBDC") affects the U.S. banking system. The CBDC-based modeling framework is well-suited for analyzing private market stablecoin adoption effects because it captures the core mechanism of interest: competition between bank deposits and a digital outside option. Nigrinis (2025)[17] treats the CBDC as a potential lower-bound for stablecoins because privately issued digital alternatives have stronger distribution incentives and fewer policy constraints compared to a tightly regulated, government-issued CBDC. Nigrinis, in a literature review of many other studies finds that "*Whited et al. (2023) provide the most complete and policy-relevant framework for estimating how stablecoin adoption translates into changes in bank lending.*" Therefore, the Nigrinis analysis and the ICBA analysis use stablecoins as a stand-in for CBDC in the Whited *et al*. framework.[18]

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[16] Toni M. Whited, Yufeng Wu, and Kairong Xiao, *Will Central Bank Digital Currency Disintermediate Banks?* (Apr. 2023), https://ssrn.com/abstract=4112644.

[17] Andew Nigrinis, *The Lending Impact of Stablecoin-Induced Deposit Outflows*, Legal Economics LLC (Oct. 10, 2025), https://ssrn.com/abstract=5586850.

[18] The Council of Economic Advisers ("CEA") notes that private stablecoins differ from a CBDC in that issuers hold reserves as bank deposits, U.S. Treasuries, repurchase agreements, and other assets. This creates a potential recycling effect whereby some funds leaving retail deposits re-enter the banking system. ICBA examines this recycling effect in depth in section 3 of this Part of our comments and finds that while recycling provides a partial offset for large banks, community bank losses remain largely unchanged across reserve scenarios. As ICBA demonstrates in the section 3 of this Part of our comments, this recycling effect is partial, unevenly distributed, and sensitive to assumptions.

Table 1. Impact of Stablecoin Adoption on U.S. Bank Deposits and Lending Under a No-Yield Scenario

	Scenario 1 – Baseline $1.22T Stablecoin Market	
	Large Banks	**Community Banks**
Total Deposits ($B)	$13,157	$4,789
Total Lending ($B)	$8,994	$4,007
Deposit Substitution Rate	$0.801	$0.844
Lending Loss per $1 Deposit Lost	$0.16	$0.46
% Change in Deposits	*-6.1%*	*-6.4%*
% Change in Lending	*-1.4%*	*-3.5%*
Deposit Flight ($B)	**($801)**	**($307)**
Forgone Lending ($B)	**($128)**	**($141)**
Total Forgone Lending ($B)	**($269)**	

Sources: ICBA analysis based on research conducted by Whited et. al (2023); Nigrinis (2025); and FDIC Call Report Data as of Q2 2025.

In this model, depositors choose among bank deposits and payment stablecoins based on interest rates, non-rate attributes like convenience and services, and other consumer preferences. The introduction of stablecoins increases competition for deposits, leading some depositors to reallocate funds even as banks respond to competitive pressures by increasing deposit rates. This, in turn, raises banks' marginal funding costs. Banks attempt to replace lost deposits with wholesale funding, but wholesale funding is more expensive, uninsured, and less stable than core deposits. These costs compound as reliance on wholesale funding increases.

Under the scenario in which stablecoins cannot bear interest directly or indirectly, the model implies that each $1 increase in stablecoin adoption displaces roughly $0.81 of bank deposits, translating into an average $0.19 reduction in bank lending.[19]

The effect is stronger for community banks. Small banks are heavily dependent on deposits to fund credit, while large banks can more easily access wholesale funding if needed. Nigrinis finds that "*while all banks are exposed, the heaviest burden falls on community banks, where deposit erosion directly undermines credit to households, small firms, and rural borrowers*."[20] In the no-

[19] Whited et al, *supra* note 16, at 49.
[20] Nigrinis, *supra* note 17, at 1.

interest scenario, each $1 deposit loss reduces lending by $0.46 at small banks and $0.16 at large banks,[21] a threefold increase in sensitivity to deposit flight.

These estimates capture deposit flight and wholesale funding costs only. The effects of issuer reserve recycling and asset reallocation at partner banks are addressed in the third and fourth section, below.

2. Yield Expands Total Market Size and Intensifies Lending Losses

There are two primary functions of money to consider as the payment stablecoin market expands: its role as a medium of exchange and its role as a store of value (reflecting a combination of safety and yield). The effects of a payment stablecoin market operating primarily as a medium of exchange were explored in section 1 immediately above, concluding that lending losses may arise but are constrained by the overall size of the market.

In contrast, permitting payment stablecoins to compete with bank deposits as a store of value through the introduction of yield threatens a much larger pool of deposits. Under a pure payments use case, the payment stablecoin market is likely to grow, but the overall market size would be more limited given the narrower application for payment stablecoins.[22] However, permitting yield or yield-equivalent workarounds stands to dramatically expand payment stablecoin market size. To illustrate this dynamic, we extend the analysis from the previous section of our comments to include two additional projections: Treasury Secretary Bessent's forecast that the market could reach $3 trillion by 2030, and the Whited *et al*. (2023) estimate that the market could grow to $5 trillion in a long-run equilibrium. Both projections reflect a policy world in which payment stablecoins compete meaningfully with traditional deposits as a store of value based on their ability to offer yield or yield-equivalent rewards.

As shown in Table 2, at the $3 trillion market size, total forgone lending reaches $945 billion, with community banks accounting for more than half of that loss ($505 billion) despite holding roughly one quarter of total deposits. This asymmetry reflects the same dynamics discussed in the previous section: community banks are more sensitive to deposit flight and experience a greater lending contraction per every dollar flowing to stablecoins ($0.65 per dollar compared to $0.22 per dollar at large banks).[23] At the $5 trillion market size, total forgone lending rises to $1.6 trillion. Large bank lending falls by $738 billion (-8.2%) and community bank lending falls by $850 billion (-21.2%).

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[21] Nigrinis, *supra* note 17, derived from Whited et al., (2023). The lending loss per dollar of deposit lost is not directly reported in Whited et al. but is derived by dividing the estimated reduction in lending per unit of CBDC by the corresponding reduction in deposits per unit of CBDC.

[22] Nigrinis, *supra* note 17, at 87.

[23] In Table 1 (the no-yield baseline scenario), lending loss per dollar outflow of deposits is $0.16 for large banks and $0.46 at smaller banks. These figures rise to $0.22 and $0.65 respectively in the yield or yield-equivalent scenarios represented in Table 2. These differences reflect how lending contractions grow more severe as deposit flight accelerates. Deposit flight per dollar increase in stablecoin market size also drifts up in the presence of yield from $0.80 to $0.82 per dollar for large banks and from $0.84 to $0.86 per dollar for smaller banks.

Table 2. Impact of Stablecoin Adoption on U.S. Bank Deposits and Lending if Yield or Yield-Equivalent Rewards are Permitted

	Scenario 2 – Bessent/Treasury $3.0T Stablecoin Market		**Scenario 3 – Fully Realized Market** $5.01T Stablecoin Market	
	Large Banks	**Community Banks**	**Large Banks**	**Community Banks**
Total Deposits ($B)	$13,157	$4,789	$13,157	$4,789
Total Lending ($B)	$8,994	$4,007	$8,994	$4,007
Deposit Substitution Rate	$0.815	$0.858	$0.815	$0.858
Lending Loss per $1 Deposit Lost	$0.22	$0.65	$0.22	$0.65
% Change in Deposits	*-15.2%*	*-16.2%*	*-25.5%*	*-27.3%*
% Change in Lending	*-4.9%*	*-12.6%*	*-8.2%*	*-21.2%*
Deposit Flight ($B)	**($2,001)**	**($777)**	**($3,355)**	**($1,307)**
Forgone Lending ($B)	**($440)**	**($505)**	**($738)**	**($850)**
Total Forgone Lending Across Banks ($B)	**($945)**		**($1,588)**	

Sources: ICBA analysis based on research conducted by Whited et. al (2023); Nigrinis (2025); and FDIC Call Report Data as of Q2 2025.

Under the GENIUS Act, a PPSI is prohibited from paying the holder of a payment stablecoin "any form of interest or yield (whether in cash, tokens, or other consideration) solely in connection with the holding, use, or retention of such payment stablecoin."[24] Despite this prohibition, some exchanges and other intermediaries are presently paying payment stablecoin holders forms of interest or yield such as rewards for holding stablecoins. This allows stablecoins to compete directly with banks for customer deposits.[25] Competition on stored value is not a future risk—it is happening already.

[24] GENIUS Act § 4(a)(11).

[25] For example, decentralized finance (DeFi) allows consumers to deposit stablecoins into non-custodial liquidity protocols (*e.g.*, Aave) and receive a wrapped token; the protocol can then lend out the deposited stablecoin, which can generate interest, applied to the wrapper token. This mechanism is known as a yield wrapper: while the deposited stablecoin itself cannot earn yield, the converted wrapped token can.

According to a working paper released in March 2026 from the European Central Bank ("ECB"), as adoption increases, stablecoins' impact on lending will grow.[26] If stablecoin adoption grows enough to trigger significant deposit loss, credit effects increase disproportionately.[27]

Treasury Secretary Bessent has recently recognized this risk, particularly for community banks. On February 5, 2026, in a hearing on "The Financial Stability Oversight Council's Annual Report to Congress," Secretary Bessent stated that the Treasury Department is working to ensure there would be no deposit volatility associated with yield-bearing stablecoins.[28] However, eliminating deposit volatility is not feasible under current policy and is inconsistent with the Secretary Bessent's projection that the market will expand to $3 trillion. Deposit volatility is an inherent part of the equation with increasing stablecoin market size.

The lending effects of yield-bearing stablecoins have been hotly debated over the last year, including in the context of the proposed CLARITY Act. Some studies have concluded that the impact on bank deposits and lending would be minimal. For example, a Coinbase-funded paper from Charles River Associates[29] ("CRA") argues that community bank deposits will see minimal impact from stablecoin growth. However, the CRA study uses a conservative projection of baseline payment stablecoin market size that is one-sixth as large as Secretary Bessent's $3 trillion projection.

The CRA study is limited to current stablecoin usage and applies this linearly to projections instead of the nonlinear relationship that the ECB paper documents. Put simply, the Coinbase-funded research is grounded in today's relatively small payment stablecoin market and makes no attempt to account for the acceleration of effects once adoption reaches scale. This puts the research at odds with a central finding of the subsequent ECB paper that the relationship between stablecoin market size and deposit and lending effects is nonlinear.

Similarly, a recent paper from the Council of Economic Advisers ("CEA") estimated that eliminating stablecoin yield would only result in minimal increases to overall bank lending ($2.1 billion) and community bank lending ($500 million).[30] While ICBA appreciates that the CEA is engaging in the issue at hand, several assumptions used in the analysis unduly minimize the impact of yield-bearing stablecoins on lending loss.

- First, the authors solely base their findings on additional lending on today's immature stablecoin market, ignoring exploration of Treasury Secretary Bessent's $3 trillion projection

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[26] Carlo Altavilla *et al*., *Stablecoins and Monetary Policy Transmission,* Eur. Cent. Bank Working Paper Series No. 3199 (Mar. 2026), https://www.ecb.europa.eu/pub/pdf/scpwps/ecb.wp3199~ad552b59ec.en.pdf.
[27] *Id*. at 18.
[28] Financial Stability Oversight Council's Annual Report to Congress: Hearing Before the S. Comm. On Banking, Hous., & Urban Affairs, 119th Cong. (Apr. 24, 2026), https://www.congress.gov/event/119th-congress/senate-event/337957.
[29] Charles River Associates, *Stablecoins' Impact on Community Bank Deposits* (July 2025), https://media.crai.com/wp-content/uploads/2025/07/22152125/Stablecoins-impact-on-community-bank-deposits-July2025.pdf.
[30] Council of Economic Advisers, *Effects of Stablecoin Yield Prohibition on Bank Lending* (Apr. 2026), https://www.whitehouse.gov/research/2026/04/effects-of-stablecoin-yield-prohibition-on-bank-lending/.

and the nonlinear increases in deposit loss that would ensue. In a fully mature stablecoin market, deposit loss, and accordingly, lending loss, would be significant.

- Second, CEA's analysis assumes that stablecoin-linked deposits as a share of total bank deposits will remain 1.7%; accordingly, the lending effect the CEA finds is minimal, as the CEA has not examined a scenario where the stablecoin market is mature. If yield is allowed, and the stablecoin market approaches Secretary Bessent's projections, the stablecoin share of bank deposits cannot remain at the 1.7% benchmark used by CEA without an unrealistic increase in the total deposit base.
- Third, CEA treats community banks as outsiders in the stablecoin market, stating that *"stablecoin flows are concentrated at large institutions on both sides of the market."* CEA views this positively: if stablecoins operate outside of the community banking system, then any yield impacts would be minimal for community banks. However, as noted by Nigrinis in his response to the CEA report, large banks and community banks run different deposit businesses. Small banks compete with large banks by offering local pricing, local knowledge, and community ties. The unique benefit of community banks for small and rural communities is the exact thing at stake in the yield question; the CEA paper ignores the impact that shifting community bank deposits to large banks would have on the types of credit community banks support.[31]

3. Stablecoin Reserves Held as Bank Deposits Do Not Lead to Increased Lending

A natural question arising from the analysis above is whether the growth in stablecoin issuer reserves can offset lending losses from deposit flight by replacing retail deposits with deposits from stablecoin issuers. The GENIUS Act requires PPSIs to hold reserves against stablecoins in circulation on at least a 1 to 1 basis.[32] As the payment stablecoin market grows, so does the reserve pool. Some reserves re-enter the financial system, including as deposits at banks. However, the benefits are uneven, and for community banks, they are essentially nonexistent.

Stablecoin reserves held as bank deposits present a distinct challenge that, according to recent literature, is another source of credit disintermediation. The GENIUS Act requires stablecoin issuers to offer "timely redemption" for stablecoin holders,[33] meaning that stablecoin issuers place a portion of their assets in bank deposits to fulfill redemption obligations. These stablecoin-linked deposits are often highly concentrated in specialized partner banks. Redemption obligations follow daily stablecoin primary market activity and are thus frequent and volatile, requiring banks with stablecoin-linked deposits to maintain substantially larger reserve balances to service stablecoin payment activity than is necessary for traditional deposits. Lee & Tou find that in the nine months following new partnerships with stablecoin issuers, banks' daily interbank

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[31] Andrew Nigrinis, *Big Assumptions, Bigger Impacts: Rethinking Stablecoin Policy Findings Who Lends to Main Street When the Deposits Leave?* (Apr. 2026), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=6582639.
[32] GENIUS Act § 4(a)(1)(A).
[33] *Id*. at § 4(a)(1)(B).

payment activity increases by 67%, creating significant variation in banks' reserve balances within a given day.[34] Among banks holding stablecoin-linked deposits, the loan share of assets falls approximately 14 percentage points relative to peers.[35] Consistent with theory, partner banks must operate more narrowly to service stablecoin redemptions—holding assets but not necessarily lending to consumers or businesses. Thus, while stablecoin issuers holding reserves at banks may preserve bank deposit bases, these deposits are less likely to be used for lending.

4. In a Stablecoin Reserve Recycling Scenario, Community Banks Still Lose Core Deposits that Are Replaced with Smaller Amounts of Less Lendable Deposits

Other research, such as the recent CEA study, concludes that stablecoin reserves are likely to be recycled into the banking system as stablecoin issuers purchase U.S. Treasuries, which are primarily held by banks.[36] However, the CEA conclusion that prohibiting yield will only result in a $2.1 billion increase in lending is based on a set of precise assumptions that minimize the effect on lending and fail to consider the differential impacts on community banks.[37]

First, consider the current distribution of reserve assets across the two major stablecoin issuers, Tether and Circle, which account for roughly 90% of the current stablecoin market. Distributing these percentages, the total composition of reserves across these two issuers is 53% U.S. Treasuries, 26% repurchase agreements, 11% other (which includes assets like non-U.S. Treasuries, other investments, precious metals/bitcoin, and issuer-specific residuals), 6% secured loans, and 4% bank deposits (see Figure 1). Secured loans and other assets have no reliable path back to the U.S. banking system, so they are treated as non-recycling. Under the most favorable assumptions, that leaves 83% of assets as potentially recycling and offsetting deposit flight, although maturity mismatches between repurchase agreements and other forms of lending makes it unlikely that this portion of reserves will be fully recycled into the banking system to support lending activities.

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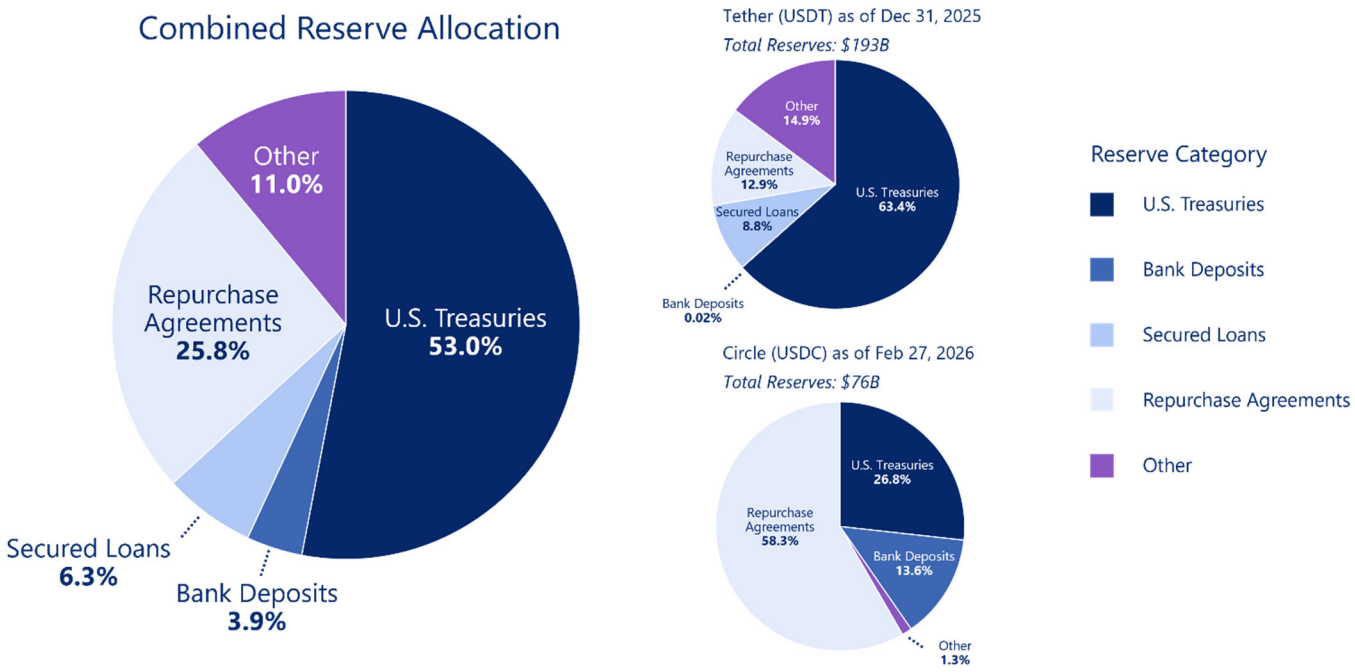
[34] Michael Junho Lee and Donny Tou, *Stablecoin Disintermediation*, Fed. Rsrv. Bank of N.Y. Staff Reports, no. 1185 (Feb. 2026), https://www.newyorkfed.org/medialibrary/media/research/staff_reports/sr1185.pdf.

[35] *Id.* at 5.

[36] Council of Economic Advisers, *supra* note 30.

[37] The CEA paper also establishes the baseline assumption that reserves are abundant; this represents an environment in which deposit competition is weak. Using this assumption, it is unsurprising that the CEA arrived at the conclusion that deposits would remain relatively unchanged and lending activity would be minimally impacted. However, the CEA acknowledges that in a reserves-scarce environment, "a bank that loses a deposit…would need to shrink lending to free reserves…In that environment, even the compositional shift could force a net contraction in credit." Council of Economic Advisers, *supra* note 30, at 3. In the scenario where reserves are scarce, the CEA finds that lending effects jump from $2.1 billion to $531 billion. The abundant reserves framework is a consequence of post-2008 quantitative easing and is not a permanent feature of the banking system. Notably, this jump occurs under the assumption that 88% of reserves recycle, which is implausible given their composition.

Figure 1: Composition of Reserves Across Major Stablecoin Issuers



Circle figures exclude timing & settlement differences; remaining assets renormalized to sum to 100%. "Other" includes assets such as non-U.S. Treasuries, precious metals, bitcoin, issuer-specific residuals, and other investments.

Source: Adapted from Wang (2025) with updated data from publicly available transparency reports by issuers.

In its analysis, CEA assumes that 12% of issuer reserves are held as bank deposits[38], which CEA acknowledges as non-lendable due to intraday liquidity concerns discussed by Lee & Tou. The remaining 88% of reserves are recycled into the banking system through the purchase of U.S. Treasuries and repurchase agreements in CEA's model.

In reality, the reserve composition of stablecoin issuers suggests that a significantly smaller share of reserve assets will be recycled through the banking system to offset deposit loss and support lending activity. As shown in Figure 1, U.S. Treasuries make up only a portion of non-deposit assets. Reserves in assets like Bitcoin or precious metals, as well as secured loans, have no clear path to re-enter the U.S. banking system. Therefore, ICBA's analysis of the CEA's recycling argument focused on the share of U.S. Treasuries (53%) and repurchase agreements (26%) for the top two stablecoin issuers in the U.S. as the basis for recycling scenarios.

To assess the likely impact of reserve recycling on credit creation, ICBA analyzes three different cases: high, moderate, and low recycling. These scenarios are developed based on the reserve composition of major stablecoin issuers and their holdings of U.S. Treasuries and repurchase agreements as a share of reserves, and reflect some uncertainty about the extent of recycling

[38] The 12% in bank deposits is based on Circle's December 2025 Reserve Report.

across different reserve asset categories. Unlike the assumptions used in CEA's model that assume recycling of all non-deposit assets, these scenarios present plausible outcomes based on the reality of reserve composition and the suitability of various reserve asset categories in supporting lending activity.

- The High Recycling case (79% of stablecoin assets) treats both U.S. Treasuries and repurchase agreements as fully recycling, which is consistent with the CEA framework.
- The Moderate Recycling case (66%) treats U.S. Treasuries as fully recycling and repurchase agreements as 50% recycling as a result of maturity mismatches between repos and other forms of lending.
- The Low Recycling case (53%) treats only U.S. Treasuries as recycling.

Importantly (and unlike the CEA analysis), the recycling adjustment is applied only to large banks across all three scenarios. Community banks are not participants in T-bill secondary markets or repo settlement circuits and have no institutional mechanism to receive these deposits. While community banks may borrow from larger banks, the cost of wholesale funding is much larger for small banks as discussed in Section 1. Community bank deposit flight and forgone lending figures are therefore invariant across all three recycling cases. A dollar leaving a community bank through stablecoin adoption is funding lost from local credit creation regardless of the recycling assumption applied to large banks. The results are presented in Table 3.

- In the baseline no-yield scenario, community banks lose $141 billion in lending (-3.5%) across all recycling cases. Large banks, by contrast, face a range of outcomes, including deposit base and lending increases under high and moderate recycling scenarios as dollars flow out of community banks and reconcentrate at large institutions.
- As the market scales to $3 trillion, community bank lending losses reach $505 billion (-12.6%), invariant across recycling cases, while large banks' change in lending ranges from +$80 billion to -$90 billion depending on recycling assumptions.
- At $5 trillion, community bank lending losses reach $850 billion (-21.2%).

The analysis demonstrates that if the market for stablecoins expands rapidly due to the allowance of yield or yield-equivalent rewards, deposits will be funneled away from both community banks and large banks and toward a smaller volume of less stable and less lendable reserves, which will be held almost exclusively at large banks. The result will be a much more concentrated U.S. banking system, undermining one of its core strengths. Per Beth Hammack, President and CEO of the Federal Reserve Bank of Cleveland, "*In good times and bad, the large and diverse US banking system is our economy's 'secret sauce,' and like any great recipe, our banking sector blends a variety of ingredients to create a flavor profile with balance and harmony, one which is uniquely American."*[39]

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[39] Beth M. Hammack, *A Recipe for a Thriving U.S. Economy*, Federal Reserve Bank of Cleveland, (Feb. 10, 2026), https://www.clevelandfed.org/collections/speeches/2026/sp-20260210-recipe-for-a-thriving-us-economy.

That balance is precisely what stablecoin-driven lending loss and industry concentration threatens. Ultimately, the bank creating the loan matters, and declines in the lending capacity of community banks will damage the local economies they support as well as the resiliency of the U.S. financial system.

Table 3. Impact of Stablecoin Adoption on U.S. Bank Deposits and Lending Under High, Moderate, and Low Reserve Recycling Offsets

	Scenario 1 – Baseline $1.22T Stablecoin Market		**Scenario 2 – Bessent/Treasury** $3.0T Stablecoin Market		**Scenario 3 – Fully Realized Market** $5.01T Stablecoin Market	
	Large Banks	**Community Banks**	**Large Banks**	**Community Banks**	**Large Banks**	**Community Banks**
Total Deposits ($B)	$13,157	$4,789	$13,157	$4,789	$13,157	$4,789
Total Lending ($B)	$8,994	$4,007	$8,994	$4,007	$8,994	$4,007
Lending Loss per $1 Deposit Lost	$0.16	$0.46	$0.22	$0.65	$0.22	$0.65
Change in Deposits ($B) (Unadjusted for Recycling)	($801)	($307)	($2,001)	($777)	($3,355)	($1,307)
Recycling Adjustment (Applied to Large Banks Only – Community Banks Assumed to Receive No Recycling Benefit) ($ Billions)						
Large Bank Net Deposit Loss, High Recycling (79%)	+$160	($307) *(invariant across recycling cases)*	+$363	($777) *(invariant across recycling cases)*	+$592	($1,307) *(invariant across recycling cases)*
Large Bank Net Deposit Loss, Moderate Recycling (66%)	+$3		($24)		($54)	
Large Bank Net Deposit Loss, Low Recycling (53%)	($154)		($410)		($699)	
Forgone Lending ($ Billions)						
High Recycling Case	+$26	($141) *(invariant across recycling cases)*	+$80	($505) *(invariant across recycling cases)*	+$130	($850) *(invariant across recycling cases)*
Moderate Recycling Case	+$0.5		($5)		($12)	
Low Recycling Case	($25)		($90)		($154)	
Total Forgone Lending – All Bank Types Combined ($ Billions)						
High Recycling Case	**($116)**		**($425)**		**($719)**	
Moderate Recycling Case	**($141)**		**($510)**		**($862)**	
Low Recycling Case	**($166)**		**($595)**		**($1,004)**	
Percent Change in Lending						
Community Banks – All Recycling Cases	--	-3.5%	--	-12.6%	--	-21.2%
Large Banks – High Recycling	+0.3%	--	+0.9%	--	+1.4%	--
Large Banks – Moderate Recycling	0.0%	--	-0.1%	--	-0.1%	--
Large Banks – Low Recycling	-0.3%	--	-1.0%	--	-1.7%	--

Sources: ICBA analysis based on research conducted by Whited et. al (2023); Nigrinis (2025); CEA (2026); and Deposit and lending base data from FDIC Quarterly Banking Profile and FFIEC Call Reports as of Q2 2025 FFIEC.

PART II: PAYMENT STABLECOINS

ICBA supports a strict and carefully implemented regulatory framework for payment stablecoins because their growth could disintermediate community bank deposits, reduce lending capacity, and increase concentration in the banking system. Payment stablecoin regulation should protect the banking system and the DIF, rather than facilitate stablecoin growth at the expense of community banks.

B. The FDIC Must Set Forth Clear Definitions that are Consistent with the GENIUS Act

1. The Term "Customer" must encompass all persons with interactions with a PPSI, including downstream payment stablecoin holders

The NPR would define the term "customer" to mean a person that purchases (through any consideration) the products or services of a PPSI directly from the PPSI.[40] This definition of "customer" would apply only to the FDIC's proposed rules on Payment Stablecoin at Part 350, Subpart A, Requirements and Standards for Permitted Payment Stablecoin Issuers. The FDIC does not intend for the proposed definition of "customer" to affect any requirements promulgated to implement the treatment of PPSIs as financial institutions under the Bank Secrecy Act and to apply Federal law relating to the prevention of money laundering, including customer identification programs and customer due diligence requirements to PPSIs.[41]

Question 3 of the NPR asks if the proposed definition of "customer" is appropriately scoped and whether the FDIC should consider defining the term to also include persons with indirect relationships with a PPSI, such as downstream payment stablecoin holders, and the reasons why or why not.[42]

The GENIUS Act establishes thirty-three defined terms that are used within the statute.[43] The term "customer" is used throughout the statute in an array of important substantive areas that frame the obligations and requirements that apply to the parties that are subject to the GENIUS Act; but the term "customer" is not defined.

The GENIUS Act uses the term "customer" in significant contexts, including, but not limited to: (1) plural use of the term in the definition of "digital asset service provider,"[44] which is a

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[40] GENIUS Act Requirements and Standards for FDIC-Supervised Permitted Payment Stablecoin Issuers and Insured Depository Institutions*, supra* note *3,* at proposed § 350.1(b)(3).

[41] *See id.* at 18536, footnote 14.

[42] *See id.* at proposed § 350.101. The NPR would establish a separate definition of ''customer'' to apply to the FDIC's rules on Payment Stablecoin at Part 350, Subpart B, Requirements for FDIC-Supervised Entities Engaged in the Custody or Safekeeping of Payment Stablecoin Reserves and Collateral. In the context of custody and safekeeping, the term "customer" would mean a person for whom or on whose behalf a custodian receives, acquires, or holds payment stablecoin reserves, payment stablecoins used as collateral, private keys, cash, and other property received in the course of the provision of custody services for such assets

[43] *See* GENIUS ACT § 2 (Definitions).

[44] *See* GENIUS Act § 2(7) (defining "digital asset service provider" to mean a person that, for compensation or profit, engages in the business in the U.S. "including on behalf of *customers* or users in the United States" in certain activities (italics added)).

foundational definition that establishes the parameters of regulation of PPSIs because any "person" that falls outside the definition of "digital asset service provider" falls outside the prohibition and regulatory requirements in the GENIUS Act; (2) plural use of the term in temporary cease and desist proceedings where the interests of customers of a PPSI may be prejudiced;[45] and (3) prohibiting PPSIs from providing services to a customer on the condition that the customer obtain an additional product or service from the PPSI or any of its subsidiaries or agree not to obtain a product or service from any of its competitors.[46] This provision provides for future interpretive rules promulgated by the Board of Governors of the Federal Reserve System that are not yet public.

The NPR states that the FDIC believes the proposed definition of "customer" would be appropriate to distinguish situations "where a person has no direct relationship with a PPSI such as a payment stablecoin holder who receives a payment stablecoin in exchange for goods or services sold, or who purchases a payment stablecoin on the secondary market, and does not establish a relationship with the PPSI."[47]

ICBA recommends that the proposed definition of the term "customer" cover all persons with interactions with a PPSI including downstream payment stablecoin holders. ICBA believes it is inconsistent with the framework of the GENIUS Act to limit the definition of "customer" only to persons with direct interactions with a PPSI. This narrow definition would create statutory gaps in the foundational provisions of the statute that do not now exist, including with respect to the statutory provisions establishing the scope of the parties that are subject to the law, consumer or customer protection and disclosure obligations, compliance responsibilities, and risk management accountability.

Limiting the definition of "customer" only to persons with direct interactions with the PPSI would significantly narrow the scope of application of the GENIUS Act by excluding any persons who rely on or interact indirectly with an issuer's payment stablecoins through an intermediary, such as a platform, exchange, or technology application that interfaces directly with the PPSI on behalf of customers or end users.

Limiting the term "customer" to persons with direct interactions with a PPSI would also create ambiguities and anomalies in understanding the framework of the GENIUS Act. Reading a statute to render a part of it meaningless is contrary to the long-standing statutory canon that every word Congress included in a law should be accorded effect.[48] As an example, limiting the term "customer" to persons with direct interactions with a PPSI would eviscerate the plain, ordinary meaning of the word "customer" within the GENIUS Act definition of "digital asset

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[45] GENIUS Act § 6(b)(4)(D).
[46] GENIUS Act § 4(a)(8).
[47] *See* GENIUS Act Requirements and Standards for FDIC-Supervised Permitted Payment Stablecoin Issuers and Insured Depository Institutions, *supra* note 3.
[48] *See Nat'l Labor Relations Bd v. Jones & Laughlin Steel Corp*., 301 U.S. 1, 30 ("The cardinal principle of statutory construction is to save, and not to destroy."); *U.S. v. Menasche*, 348 U.S. 528, 539 (1955) ("It is our duty to give effect, if possible, to every clause and word of a statute" (citing *Montclair v. Ramsdell*, 107 U.S. 147,152 (1883)); *Duncan v. Walker*, 533 U.S. 167, 175 (2001) (It is a "cardinal principle of statutory construction" that a statute be interpreted so that no clause, sentence, or word is rendered superfluous, void, or insignificant).

service provider," potentially excluding from that definition persons who engage in activities "on behalf of customers" in the U.S.[49]

Where, as here, a statute uses a term but does not define it, the Supreme Court construes the term in accordance with its ordinary meaning at the time Congress enacted the law.[50] Applying this judicial precedent and principle of statutory construction, the term "customer" in the GENIUS Act should not be limited in the manner set forth in the NPR. Indeed, the ordinary meaning of the term "customer" in public usage is a person who buys a good or service and in legal usage is a person or business that purchases a commodity or service.[51]

ICBA believes that the definition of "customer" should include any person that uses, holds, or transacts in a payment stablecoin issued by a PPSI as well as any person that relies on the PPSI's services through maintaining an account or relationship directly with the PPSI or through an intermediary that provides services involving that stablecoin. Persons who have stablecoin redemption or liquidation rights should also be customers.

ICBA supports a broad, functional definition of the term "customer" to cover the myriad of direct and indirect contexts in which the term "customer" is used in the GENIUS Act and thereby to foster a sound regulatory regime to carry out the requirements of the law. The notice of proposed rulemaking published by the OCC on March 2, 2026[52] provides an appropriate definition of the term "customer" to mean a person that purchases (through any consideration) the products or services of another person.[53] The definition of "customer" proposed by the OCC does not require a direct relationship with the PPSI, as in the NPR, and no such requirement exists in the GENIUS Act. A careful reading of the GENIUS Act makes clear that the meaning of the term "customer" is based upon direct or indirect interaction with a PPSI; whenever a person interacts functionally with a PPSI, the GENIUS Act treats that person as a "customer."

The definition of "customer" proposed by the OCC aligns with the ordinary, plain meaning of the term and with the overall framework of the GENIUS Act. The definition of "customer" proposed by the OCC also comports with the GENIUS Act requirements for treating PPSIs as financial institutions for purposes of the Bank Secrecy Act and other anti-money laundering laws and laws

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[49] In relevant part, the term "digital asset service provider" means a person that, for compensation or profit, engages in business in the U.S. "(including on behalf of *customers* or users in the United States)" in certain activities. *See* GENIUS Act § 2(7)(A) (italics added).

[50] *See Perrin v. United States,* 444 U.S. 37, 42 (1979) ("a fundamental canon of statutory construction" is that words are generally interpreted according to their ordinary, contemporary, common meaning at the time Congress enacted the statute*."; Bostock v. Clayton County*, 590 U.S. 644, 654 (2020) ("This Court normally interprets a statute in accord with the ordinary public meaning of the terms at the time of its enactment."); *Wisconsin Central Ltd. v. United States*, 585 U.S. 274, 279-80 (2018) ("our job is to interpret the words consistent with their ordinary meaning…at the time Congress enacted the statute"); *New Prime Inc. v. Oliveira*, 586 U.S. 105, 113-14 (2019); *BP P.L.C. v. Mayor of Baltimore*, 593 U.S. 230, 237 (2021); *Southwest Airlines Co. v. Saxon*, 596 U.S. 450, 455-56 (2022).

[51] *See e.g.*, definition of "customer" in Merriam-Webster Dictionary ("one that purchases a commodity or service) and Black's Law Dictionary (a customer is defined broadly as a person, company, or entity that purchases goods or services from another.)

[52] Implementing the Guiding and Establishing National Innovation for U.S. Stablecoins Act for the Issuance of the Stablecoins by Entities Subject to the Jurisdiction of the Office of Comptroller of the Currency, *supra* note 4.

[53] *Id.* at proposed § 15.2.

that counter the financing of terrorism. For these reasons, ICBA urges the FDIC to align the final definition of "customer" with the OCC's proposed definition.

The GENIUS Act requires a PPSI to be treated as a financial institution for purposes of the Bank Secrecy Act, and to be subject to all Federal laws applicable to a financial institution relating to economic sanctions, prevention of money laundering, customer identification, and due diligence.[54] These Federal laws are broad in scope and application, well beyond the narrow definition of "customer" in the NPR, and require effective programs for each area - anti-money laundering, customer identification, suspicious activity reporting, transaction monitoring, and sanctions compliance, among others.

To illustrate the breadth of application of economic sanctions laws, an enforcement release issued by the Office of Foreign Assets Control ("OFAC") on June 1, 2026, emphasizes "the foundational principle, adopted broadly throughout OFAC's regulations and the relevant sanctions restrictions, that it is prohibited to do indirectly what one cannot do directly." [55] This foundational principle weighs in favor of adopting a broad rather than a narrow definition to apply to downstream transactions.

Moreover, an effective AML program monitors transactions and requires filing of suspicious activity reports when a financial institution knows, suspects, or has reason to suspect that a transaction involving a threshold amount has been conducted or attempted by, at, or through the financial institution.[56] A PPSI would obtain knowledge about downstream transactions through having an effective AML program.

2. *If the FDIC Defines "Payment Stablecoin Holders," It Must Provide Clear Statutory Justification and Allow Additional Opportunity for Public Comment*

Question 13 of the NPR asks if the FDIC should define the term "payment stablecoin holders," and if so, whether the term should be defined to mean the person that beneficially owns the payment stablecoin, or should instead be defined based on possession via digital wallets or control of private keys. The NPR also asks what interactions with other requirements in the NPR the FDIC should consider if it chooses to define the term.

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[54] GENIUS Act § 4(a)(5).

[55] *See* U.S. Dep't of the Treasury, Office of Foreign Assets Control, Enforcement Release, *FTI Consulting, Inc., a Global Business Advisory Firm, Settles with OFAC for $1,050,000 Related to Apparent Violations of Dealing in Prohibited Debt of Sanctioned Russian Bank* (June 1, 2026), at 1 and 5. ("OFAC regulations apply to prohibited dealings conducted indirectly just as they do to those committed directly. Transacting indirectly through another party does not make permissible what is otherwise prohibited, regardless of whether the relevant OFAC program broadly proscribes dealing with a sanctioned person or restricts specified transactions. Indirect dealings risk engaging in evasion or avoidance rather than achieving compliance…U.S. persons cannot structure around sanctions prohibitions by having another party transact with a sanctioned entity on behalf of the U.S. person.")

[56] Fed. Fin. Insts. Exam. Council, *Bank Secrecy Act/Anti-Money Laundering Examination Manual: Assessing Compliance with BSA Regulatory Requirements, Suspicious Activity Reporting*, https://bsaaml.ffiec.gov/manual/AssessingComplianceWithBSARegulatoryRequirements/04.

Although the GENIUS Act establishes thirty-three defined terms that are used throughout the statute, the GENIUS Act uses, but does not define, the term "payment stablecoin holders."[57] This calls into question whether creating a definition of the term without a clear delegation of authority from Congress to do so effectively legislates rather than regulates, particularly in the absence of statutory instruction to define the term.

How the FDIC defines the term "payment stablecoin holders" could have major consequences for redemptions, custody, and insolvency that the FDIC should consider if it chooses to define the term. A payment stablecoin holder's identity is required to determine who has the legal right to redeem stablecoins for dollars or other reserve assets so methods of identification of the beneficial owner or person controlling a wallet are important. Possession of a digital wallet or control of private keys does not necessarily equate to ownership. For custody arrangements, the definition of "payment stablecoin holders" would impact how customer assets are treated when they are held by custodians. Generally, custodians should be considered to hold assets on behalf of customers who are holders, making recordkeeping obligations linking ownership records to stablecoin balances central.

The GENIUS Act gives payment stablecoin holders special priority rights to reserve assets of an insolvent issuer, so knowing who receives that priority is key in the event an issuer fails. Under a beneficial ownership approach, the beneficial owner would be recognized as the protected claimant. Under a possession of digital wallet or control of private keys approach, the likelihood of ownership disputes is greater because the exchange or custodian may be the recognized holder.

If the FDIC decides to create a definition of "payment stablecoin holders," ICBA suggests proposing the full definition and supporting rationale and analysis for public comments. The beneficial ownership approach to the meaning of "payment stablecoin holders" seems suited for purposes of bankruptcy priority while relying upon possession of the digital wallet or control of private keys could be operationally efficient for verification and administration, unless records show that the wallet or keys are held in a custodial capacity.

3. The FDIC Should Define "Redemption" and Related Terms So As To Preserve the Full Statutory Scope of Redemption Rights and Obligations

The GENIUS Act defines the term "payment stablecoin" to mean "a digital asset that is, or is designed to be, used as a means of payment or settlement" and the issuer of which "is obligated to convert, redeem, or repurchase for a fixed amount of monetary value, not including a digital asset denominated in a fixed amount of monetary value" and that meets other conditions specified in the statute.[58] The GENIUS Act does not define the phrase "convert, redeem, or repurchase" within the definition of "payment stablecoin."

Question 2 of the NPR asks if the distinction, legal or otherwise, among conversion, redemption,

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[57] *See* GENIUS Act § 2 (Definitions).
[58] Genius Act § 2(22).

or repurchase of payment stablecoins is sufficiently clear, and if the FDIC should define the meaning of the terms "conversion", "redemption", or "repurchase" and if so, how. The NPR proposes to adopt the GENIUS Act definition of "payment stablecoin" including the statutory phrase "convert, redeem, or repurchase" and does not define each of the terms within this phrase.

ICBA supports the FDIC's adoption of the GENIUS Act definition of payment stablecoin including the entire phrase "convert, redeem, or repurchase" without embellishment. Using the entire phrase as Congress provided in the GENIUS Act definition of "payment stablecoin" helps prevent PPSIs from acting on the premise that their stablecoin falls outside the definition of payment stablecoin, and therefore, outside the statute, because they only offer one or two of the mechanisms for returning value, but not all three. If the issuer is obligated to provide a fixed amount of monetary value through any one of the three mechanisms provided in the statute, conversion, redemption, or repurchase, the asset should qualify as a payment stablecoin.

Question 2 of the NPR also asks if the FDIC should define "redemption" broadly to mean that, for example, the PPSI has initiated payment to the payment stablecoin holder in return for a tendered payment stablecoin or if there are reasons to define "redemption" more narrowly, such as, for example, defining redemption to mean that "a PPSI's payment to a payment stablecoin holder in exchange for a payment stablecoin has settled on chain (without any initiation of payment in return for a tendered payment stablecoin or associated settlement)."[59]

ICBA appreciates the FDIC's engagement and recognition that the term "redemption" could be interpreted in different ways. In discussions with senior bankers, ICBA has received a range of feedback about the sequence and consequences of events that may constitute "redemption" from the perspective of PPSI subsidiaries of banks, regulators, and customers or holders. Whether the FDIC chooses to define "redemption" broadly or narrowly, the definition must align with the mandates of the GENIUS Act, including obligations of issuers and receipt of monetary value by holders, and should consider the consequences of when final settlement occurs. A significant policy issue embedded in this part of Question 2 of the NPR is finding the proper timing of when redemption occurs both to assist with evaluating issuer conduct, *e.g.*, did the issuer timely fulfill its obligations, and also to assist with evaluating payment stablecoin holder outcomes, *e.g.*, did the holder timely receive the redemption proceeds.

Defining redemption of a payment stablecoin as occurring when the PPSI initiates the payment to the payment stablecoin holder could cause an issuer to appear compliant while holders experience settlement delays caused by infrastructure risk such as sequencing failure, validation outages, chain congestion, and other issues.[60] A gap between the time of redemption and the

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[59] GENIUS Act Requirements and Standards for FDIC-Supervised Permitted Payment Stablecoin Issuers and Insured Depository Institutions, *supra* note 3, at 18537 (question 2 regarding the definitions section).

[60] *See* GENIUS Act Requirements and Standards for FDIC-Supervised Permitted Payment Stablecoin Issuers and Insured Depository Institutions, *supra* note 3. Proposed § 350.5(b) requires a permitted payment stablecoin redemption policy to provide clear and conspicuous procedures for timely redemption of outstanding payment stablecoins. The FDIC is proposing to define ''timely'' to mean that a PPSI shall redeem a payment stablecoin no later than two business days following the date of the requested redemption in proposed § 350.5(b)(1). Under the proposal, two business days would be the maximum amount of time a PPSI could choose to redeem payment

holder's receipt of funds may be inconsistent with relevant contracts and/or holder expectations because the PPSI's redemption obligation is discharged but the holder has not yet received monetary value for the surrendered payment stablecoins. This initiation of payment alternative presents insolvency complications as well where the PPSI initiates redemption and enters into bankruptcy before the transaction has settled. The GENIUS Act provides holders priority claims against reserve assets and special procedures apply to obtain distributions from PPSI reserves.[61] These bankruptcy and reserve protection procedures were framed around the holder's right to receive the underlying value of the payment stablecoin.

ICBA supports a definition of redemption, if the FDIC chooses to adopt one, that aligns with the framework and mandates of the GENIUS Act and that balances the associated practical considerations. Such a definition should provide that redemption occurs when on chain settlement finality occurs, that is, when a PPSI provides monetary value to a payment stablecoin holder in exchange for surrender of the payment stablecoins. Payment stablecoins should be considered redeemed when the PPSI has exchanged the stablecoin for the corresponding fixed amount of monetary value and extinguished the holder's claim. The PPSI's redemption obligation could be satisfied when it initiates an irrevocable payment instruction.

C. The FDIC Should Implement a Strong Prohibition on Yield, Interest, and Reward-Like Arrangements

The NPR would establish a set of permitted activities and a set of prohibitions for PPSIs.[62] The prohibitions would restrict PPSIs from paying the holder of any payment stablecoin any form of interest or yield (whether in cash, tokens, or other consideration) solely in connection with the holding, use, or retention of such payment stablecoin.[63] The FDIC would presume that a PPSI is paying prohibited interest or yield if:

(1) the PPSI has a contract, agreement or other arrangement with an affiliate of the issuer or related third party[64] to pay interest or yield to the affiliate or related third party;
(2) the affiliate or related third party (or if the person is a related third party, an affiliate of such related third party) has a contract, agreement, or other arrangement to pay interest or yield to a holder of any payment stablecoin issued by the PPSI in connection with the holding, use, or retention of payment stablecoin; and
(3) to the extent the person or affiliate of the person is a related third party of the PPSI because the PPSI issues payment stablecoins on behalf of the related third party or under the related third party's branding, the arrangement considers the holder of payment

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stablecoins, but a PPSI could choose a shorter time period.
[61] GENIUS Act § 11.
[62] See GENIUS Act Requirements and Standards for FDIC-Supervised Permitted Payment Stablecoin Issuers and Insured Depository Institutions, supra note 3, at proposed § 350.3(a) (permitted activities) and § 350.3(b) (prohibitions).
[63] *Id.* at proposed § 350.3(b).
[64] *Id.* at proposed § 350.3(b)(4)(ii). A related third party would be a person offering to pay interest or yield to payment stablecoin holders as a service and a person that the PPSI issues payment stablecoins on the person's behalf or under the person's branding.

stablecoin to be the holder of a payment stablecoin issued by the PPSI on behalf of or under the third party's branding.

The NPR provides that a PPSI may rebut this presumption by submitting written materials that, in the judgment of the FDIC, demonstrate that the contract, agreement, or other arrangement is not prohibited and is not an attempt to evade the established prohibition. Accordingly, the FDIC's NPR takes the position that a PPSI should not be able to evade the statutory prohibition by providing interest or yield through affiliates and closely related third parties.

The NPR asks whether this is an appropriate interpretation and implementation of the prohibition in section 4(a)(11) of the GENIUS Act. Question 21 of the NPR asks if it is appropriate for the FDIC to apply the GENIUS Act's prohibition on paying interest or yield to affiliates and related third parties and whether there are alternatives the FDIC should consider. Question 22 of the NPR asks if the FDIC should include a rebuttable presumption regarding the payment of interest or yield by an affiliate or related third party and if so, whether the FDIC should provide additional clarity on how the presumption could be rebutted.

The terms of Section 4(a)(11) of the GENIUS Act prohibit any payment from a PPSI to a third party, whether the third party is affiliated with the payment stablecoin issuer or not, where the third party is paying the holder of a payment stablecoin any form of interest or yield. To make such a payment is a violation of the statute. For this reason, ICBA supports the overall framework of the FDIC's NPR as a measured, appropriate interpretation and implementation of the prohibition in section 4(a)(11) of the GENIUS Act that would help prevent form-over-substance circumvention and evasion of the prohibition.

ICBA believes the FDIC's proposed interpretation and implementation is consistent with the broad prohibition on payment of yield or interest established by the plain language of the statute. This broad prohibition covers all payments to the holders of payment stablecoins whether direct and indirect in any form of consideration. Further, the FDIC's approach preserves the framework and policy objectives of the statute.

Nonetheless, the rebuttable presumption in the NPR that certain arrangements with affiliates and related third parties constitute prohibited payments of interest or yield in the FDIC's judgment raises concerns that the rule may be applied differently over time depending upon the views of FDIC leadership. If the FDIC decides to include the proposed rebuttal to the presumption in the final rule, ICBA is concerned that the proposed presumption is too easily rebutted to function as an effective deterrent.

The proposed presumption is limited to arrangements with "affiliates" and "related third parties." These defined terms could exclude a wide variety of commercial relationships that a PPSI could exploit to funnel yield to payment stablecoin holders without triggering the presumption at all. ICBA recommends that FDIC define "related third party" broadly to capture any commercial relationship in which the issuer has a financial interest, contractual relationship, or business arrangement, regardless of formal affiliation. The presumption should apply to any arrangement in which a payment stablecoin holder receives value that is, in whole or in part, a function of the holder's stablecoin holdings.

ICBA also urges the FDIC to make the presumption irrebuttable with respect to certain categories of arrangements, particularly arrangements between a PPSI and any affiliate. The FDIC must not create a path for large, well-resourced issuers to "innovate" their way out of a strict statutory prohibition.

ICBA strongly believes that the interest and yield prohibition must be affirmatively expanded to prohibit issuers from directly or indirectly paying interest or yield to stablecoin holders, rather than simply creating a rebuttable presumption. The FDIC's final rule should apply a broad, direct prohibition and back it up with the presumption as a secondary anti-evasion mechanism. Examples of potentially evasive behavior that the FDIC should expressly prohibit include:

(1) Arrangements under which the PPSI pays fees to an affiliated digital asset exchange that, in turn, offers rebates or rewards to customers who hold the issuer's stablecoin,
(2) Arrangements under which the issuer directs reserve income to a trust or special purpose vehicle that makes distributions to stablecoin holders, and
(3) Loyalty programs, token reward schemes, or "staking" arrangements in which stablecoin holdings are a material factor in determining the value of rewards received.

D. The FDIC Should Adopt a Risk Management Framework That Protects the Banking System and the DIF

Effective stablecoin risk management should not be framed as a means of facilitating or accelerating stablecoin issuance. Rather, the risk management framework must be designed to contain systemic risk, protect the insured banking system, and avoid destabilizing incentives that could undermine the deposit-funded lending community banks provide to small businesses, farmers, and families across the country. For ICBA and community bankers, it is imperative that the stablecoin regulatory framework is implemented in a manner that preserves financial stability and local lending, prevents regulatory arbitrage, and ensures that risks posed by PPSIs remain with PPSIs rather than being transferred directly or indirectly to insured depository institutions or the bank-funded DIF.

A risk management framework would best serve the millions of Americans who depend on community banks if it is explicitly grounded in macro-prudential objectives, rather than being limited to firm-level governance, controls, and operational resilience. From a community bank perspective, the most significant risks associated with payment stablecoins arise not from isolated issuer failures, but from system-level dynamics, including disintermediation of community banks due to deposit flight, concentration of transaction and settlement balances outside the insured banking system, and amplification of liquidity risk and payment-system fragility driven by rapid, confidence-sensitive redemption behavior. A risk management regime that focuses predominantly on issuer-specific controls does not adequately address the risks posed to the banking system or to communities that rely on deposit-funded credit. Accordingly, the FDIC must more directly integrate financial stability considerations into its risk management expectations, including how stablecoin growth interacts with bank funding models, credit availability, and liquidity conditions across the system.

Risk management provisions should explicitly recognize deposit displacement and liquidity migration as core risks, rather than treating payment stablecoins as simply another payments technology. The framework should be developed in light of the fact that stablecoin redemption behavior is likely to be highly procyclical. The risk management framework must account for the ways in which payment stablecoin issuance and redemption interact with bank funding stability, stress-period behavior, and interconnectedness between nonbank issuers and insured institutions. The FDIC and its fellow agencies must place significant supervisory emphasis on responsible growth management and crisis planning. Additionally, the FDIC must monitor and supervise for aggregate market effects rather than looking solely at issuer-level compliance.

In sum, the risk management framework must make clear that the objective of stablecoin oversight is to contain systemic risk, protect the insured banking system, and prevent shadow-bank runs from placing pressure on the bank-funded DIF. By explicitly addressing deposit displacement, procyclicality, and systemic liquidity risks, the FDIC and its fellow regulators can better ensure that stablecoins do not inject additional uncontrolled risk into the financial system.

1. The FDIC Must Establish a More Robust Capital Framework for PPSIs

The NPR does not set a floor for capital requirements beyond the initial $5 million floor for *de novo* PPSIs. Beyond that initial time, a PPSI would determine for itself the "minimum capital amount commensurate with the level and nature of all risks to which the [PPSI] is exposed[.]"[65]

ICBA strongly urges the FDIC to establish a more robust capital framework with objective standards in the final rule. PPSI capital and operational backstop requirements are essential to protecting the financial system from spillover risk associated with stablecoin volatility. Therefore, the FDIC must not establish a weak capital framework that encourages undue risk-taking in and irrational growth untethered to the underlying economics of the payment stablecoin sector, but rather must ensure that risks associated with payment stablecoins are fully internalized by issuers and not externalized to insured depository institutions, the bank-funded DIF, or the American taxpayer.

Capital and operational backstops should be treated as loss-absorbing buffers that protect against operational failures, governance weaknesses, redemption stress, and confidence shocks. They are especially critical given the potential for rapid scaling and run dynamics inherent in stablecoin markets. The capital and operational backstop requirements must be robust and clearly framed as protective measures, not structured in a minimalist way to make PPSI structures more economically attractive, as in the NPR.

In particular, strong capital requirements and operational backstops are necessary to prevent the externalization of risk to community bank counterparties or partners. Community banks and the banking system as a whole must not be placed in a position where they are expected to

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[65] See GENIUS Act Requirements and Standards for FDIC-Supervised Permitted Payment Stablecoin Issuers and Insured Depository Institutions, supra note 3, at proposed § 350.9(a)(2)(i).

absorb losses, provide liquidity support, or serve as stabilizers. Robust capital and operational requirements at the issuer level reduce the likelihood that stress spreads from a PPSI to insured depository institutions, which is critical to the stability of the banking system.

ICBA strongly recommends that the FDIC adopt the following minimum requirements:

- a robust, objective minimum capital requirement for PPSIs,
- a capital instrument framework for PPSIs that controls for the risk of PPSIs investing material amounts of capital in generally illiquid and potentially volatile or difficult to value intangible assets,
- a variable capital component based on a percentage of outstanding issuance value,
- a variable capital component based on the fair value of assets held in custody for PPSIs that provide customers with custodial services,
- a variable capital component tied to the credit risk of certain stablecoin reserve assets, and
- a capital requirement equivalent to the market price volatility haircut applied to collateral for repo-style transactions for national banks.

Additionally, there must be consequences for a PPSI that fails to maintain adequate capital or operational backstop levels beyond a mere restriction on issuing any new stablecoins. The provisions in the NPR are much less stringent than the Prompt Corrective Action framework that applies to community banks, and similar heightened supervision and enforcement actions would be appropriate in this context.

2. The scope of permissible activities should be narrow and more clearly defined

The FDIC should adopt a narrow, clearly defined framework for permissible activities that limits PPSIs to core payment stablecoin functions and prevents expansion into bank-like activities absent bank-like regulation. Clear boundaries, explicit definitions, and a transparent approval process are essential to prevent regulatory arbitrage and ensure a level competitive playing field for community banks.

Proposed § 350.3(a) of the NPR sets forth the set of permissible activities for an FDIC-supervised PPSI. Chief among these are the ability to:

- issue payment stablecoins;
- redeem payment stablecoins;
- manage reserves;
- provide custodial or safekeeping services for payment stablecoins, required reserves, or private keys of payment stablecoins;
- undertake other activities that directly support any of these activities; and
- undertake activities that are incidental to any of these activities or that are digital asset service provider activities or are incidental thereto that are authorized by the FDIC.

This closely tracks the GENIUS Act and is appropriately limited to clearly defined functions that support the issuance of payment stablecoins. No expansion of this list is warranted, and to do so would exceed the authority granted by Congress when it set out a framework for payment stablecoin issuers to operate as narrow payment utilities rather than full service financial intermediaries.

In the event that a PPSI seeks to engage in additional activities, the FDIC and its fellow regulators should establish a formal review process. Such a PPSI should be required to seek prior approval from its regulator for a new activity, and approval should only be granted if the activity is found to be directly related to a PPSI's core functions, to not introduce risks to the banking system, the PPSI parent, or the DIF, and does not replicate banking activities without comparable safeguards. Decisions should be publicly disclosed, to avoid exposing community banks to uncertainty and competitive inequity.

The term "incidental" should be further circumscribed in the final rule, as it would otherwise remain overly vague and provide a means for PPSIs to evade the limitations on their activities. Activities that "directly support" a PPSI's activities are those that are necessary and integral to core functions and do not have an independent business purpose. "Incidental" activities are those that are not strictly necessary to a PPSI's core functions, may have an independent business purpose, and/or pose a risk of expansion into services beyond those authorized by the GENIUS Act. The scope of activities that "directly support" a PPSI's core functions should be narrowly interpreted, and applications to engage in incidental activities should be subject to heightened scrutiny.

Finally, ICBA is supportive of proposed § 350.3(b)(8) which would prohibit a PPSI from providing "a customer credit, directly or indirectly, to enable the customer to purchase or otherwise acquire payment stablecoins from the permitted payment stablecoin issuer." PPSI regulators must avoid embedding leverage and speculation into a product intended for payments. Credit-financed payment stablecoins would create feedback loops that increase run risk, even in a fully reserved system. Additionally, permitting a PPSI to extend credit would allow it to engage in bank-like lending functions without bank-like supervision and regulation. This prohibition is essential to preserving deposit-based funding, preventing regulatory arbitrage, and ensuring that core banking functions—particularly credit intermediation—remain subject to appropriate supervisory safeguards.

3. The Final Rule Should Address Revocation of Approval and Wind-Down of PPSIs

The FDIC should close a critical gap in the PPSI supervisory framework by addressing revocation and termination of approval. Although the FDIC has proposed procedures for PPSI applications and agency review, the NPR does not explain when or how approval to operate as a PPSI may be revoked or terminated.

Need for Clear Revocation Authority

Community banks generally support strong and credible regulatory authority to terminate approval for institutions that pose undue risk to safety and soundness or financial stability. Clear revocation and rescission authority is especially important in the payment stablecoin context, where issuer behavior, scale incentives, and confidence-sensitive redemption dynamics could otherwise encourage growth strategies that rely on implicit regulatory forbearance. Revocation and rescission are essential supervisory tools. They provide a necessary deterrent to reckless activities and should be addressed explicitly in the final rule.

The absence of defined triggers, processes, or authority for termination or resolution creates uncertainty about how PPSI failures would be managed, particularly given their affiliation with IDIs. In addition to triggers such as failure to satisfy the regulatory requirements of this NPR, ICBA also urges the FDIC to consider additional factors that should prompt revocation or rescission of a PPSI's approval, including enforcement actions by the Financial Crimes Enforcement Network or the Office of Foreign Assets Control. According to the Financial Action Task Force, most on-chain illicit activity now involves stablecoins.[66] Those agencies therefore may have cause to act against issuers that violate U.S. law or fail to address illicit use of their payment stablecoins.

Interaction with Resolution and Wind-Down Planning

The FDIC should clarify how PPSI failure would interact with existing bank resolution frameworks. PPSIs should be required to maintain credible, tested wind-down plans. At a minimum, those plans should address reserve disposition, custody and settlement unwind, and communications with bank partners and customers. They should be designed both to protect stablecoin holders and to avoid negative spillovers to partner banks. Without these requirements, community banks that provide services to PPSIs may face abrupt consequences arising from activities they do not control. Community banks serving as reserve holders, custodians, or service providers should be able to rely on orderly issuer wind-down plans to manage liquidity exposure and avoid being drawn into crisis responses driven by issuer failure. A wind-down plan that emphasizes consumer protection and market stability, consistent with prudential norms, would also help prevent run-first dynamics that could accelerate deposit outflows from insured depository institutions.

Treatment of Partner Community Banks

The FDIC should make clear that a community bank that has partnered with, or provided services to, a PPSI in compliance with applicable laws and supervisory expectations is not presumed to present safety and soundness concerns solely because a partner PPSI's authority is revoked. An insured depository institution should not be subject to heightened supervisory response based only on issuer-level actions. This approach is analogous to how community banks are

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[66] *See, e.g.*, Financial Action Task Force, Targeted Update on Implementation of the FATF Standards on Virtual Assets/VASPs (2025), at 3, https://www.fatf-gafi.org/content/fatf-gafi/en/publications/Fatfrecommendations/targeted-update-virtual assets-vasps-2025.html.

treated in similar contexts, such as the termination of partnerships with financial technology companies.

4. The FDIC Should Maintain a Strict Prohibition on Pledging, Rehypothecating, and Reusing Reserve Assets

The NPR would prohibit a PPSI from pledging, rehypothecating, or reusing any reserve assets, except in the following limited circumstances:

(iv) satisfying margin obligations in connection with investments in required reserves under proposed § 350.4(e)(5) or (6);
(iv) satisfying obligations associated with the use, receipt, or provision of standard custodial services; or
(iv) creating liquidity to meet reasonably expected redemption requests, such that reserves in the form of Treasury bills with a maturity of 93 days or less may be sold as purchased securities in repurchase agreements,
(iv) provided that either: (A) the repurchase agreements are cleared by a clearing agency registered with the Securities and Exchange Commission; or (B) the PPSI receives prior written approval from the FDIC. [67]

However, the NPR also poses several questions (Questions 25, 26, and 58) that contemplate broader exemptions. ICBA strongly supports a robust and unambiguous prohibition on the pledging, rehypothecation, or reuse of reserve assets and urges the agency to strengthen the proposed rule by rejecting any expansion of these exceptions and maintaining strict limits on the amount of reserve assets that may be pledged or rehypothecated. Broader exemptions would undermine the stability that payment stablecoins are intended to provide and weaken confidence in their ability to be redeemed on a one-to-one basis for U.S. dollars. Rehypothecation and the pledging of reserve assets are fundamentally inconsistent with that objective. The FDIC should therefore adopt a clear and narrow rule that preserves reserve integrity and avoids creating redemption risk that could trigger destabilizing runs in periods of stress.

5. The FDIC Should Strengthen Limits on Insider and Affiliate Transactions and Clarify the Application of Bank-Parent Support Restrictions

ICBA recommends strengthening and clarifying the insider and affiliate transaction provisions in § 350.6(a)(5) of the NPR to align with the quantitative and qualitative restrictions and requirements applicable to banks pursuant to Sections 23A and 23B of the Federal Reserve Act and the implementing regulations and interpretations. At a minimum, the final rule must include:

- Individual and aggregate ceilings on the dollar amount of insider and affiliate transactions,
- A prohibition on risky transactions, including a prohibition on acquiring low-quality assets from insiders or affiliates, and
- Collateralization requirements for affiliate credit transactions.

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[67] GENIUS Act Requirements and Standards for FDIC-Supervised Permitted Payment Stablecoin Issuers and Insured Depository Institutions, *supra* note 3, at 18539.

A bank parent's support for its PPSI subsidiary should already be subject to the quantitative and qualitative limitations of Section 23A and 23B and Regulation W. However, for the avoidance of doubt, the FDIC should coordinate with the other banking regulators to ensure that regulations implementing the GENIUS Act are clear that these restrictions apply to bank parent support of a PPSI subsidiary. The need for clear limits is particularly acute as stablecoins are prone to run risk. Allowing the expectation of a parent insured depository institution to bail out its PPSI would weaken critical separation between a bank and its affiliate and expose the bank-funded DIF to substantial risk from uninsured nonbank activities.

6. The FDIC Should Adopt Reserve Asset Standards That Address Both Contagion Risk and Deposit Disintermediation

ICBA recommends that the FDIC adopt reserve regulations that directly address two distinct but equally serious risks posed by payment stablecoins: financial contagion and the migration of deposits out of community banks. Any final rule should be grounded in a rigorous assessment of both the systemic consequences of reserve-asset stress and the potential for significant disintermediation of insured deposits from the traditional banking system.

Section 4 of the GENIUS Act identifies the categories of assets that may be used to back payment stablecoins, including U.S. currency and balances held at a Federal Reserve Bank, demand deposits or insured shares at an insured depository institution, short-term Treasury securities, certain repurchase and reverse repurchase agreements, money market funds invested in qualifying assets, and certain tokenized reserve assets. Although this framework is intended to ensure that payment stablecoin reserves consist of high-quality liquid assets, these permissible reserve assets do not present the same degree of safety or stability. Certain categories—such as foreign currency repos, digital asset repos, and tokenized assets—could expose both issuers and stablecoin holders to heightened liquidity, valuation, and counterparty risks, particularly under stressed market conditions.

That concern is only half of the problem. The other half is the prospect that stablecoin reserve structures could accelerate the flight of deposits away from community banks, weakening an essential funding base for relationship lending and local economic activity. Yet the FDIC proposes only a limited counterparty concentration cap and states that it "does not believe extensive asset diversification requirements are necessary."[68] That conclusion is not adequately supported and does not meaningfully confront either of the central risks at issue. A 40 percent single-counterparty cap, standing alone, does not demonstrate how the NPR would contain contagion in a period of stress, nor does it explain how the FDIC has assessed or mitigated the risk of large-scale deposit migration from community banks into payment stablecoin-related arrangements.

For that reason, ICBA urges the FDIC to undertake and publish a more robust economic analysis before moving forward. That analysis should squarely evaluate both the potential for contagion

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[68] *Id.*

arising from the composition and concentration of reserve assets and the extent to which the proposed framework could drive deposit flight from community banks. The FDIC should then repropose reserve standards that are meaningfully calibrated to mitigate both risks—not one or the other, but both.

7. The FDIC Should Require Prior Notice and Review for Any Change in Control of a PPSI

The FDIC should require prior written notice before any person acquires control of an FDIC-supervised PPSI. Adding this requirement to the final rule would align PPSI oversight with existing bank supervisory practice, prevent unvetted parties from altering a PPSI's risk profile, and promote consistency with the OCC's proposed approach in § 15.14(m) of its GENIUS Act implementation proposal.

Changes in control can materially affect a PPSI's governance, risk profile, and compliance posture, and they should therefore be subject to advance regulatory review. Without a prior notice requirement, a PPSI could undergo significant ownership changes without appropriate supervisory scrutiny, creating a gap relative to insured depository institutions and increasing the risk of regulatory arbitrage.

The prior notice framework should require written notice at least 60 days before a person acquires control of a PPSI, forms a controlling interest in a PPSI, or takes coordinated action that results in control. For this purpose, "control" should align with the Change in Bank Control Act thresholds, including a clear trigger at 25 percent ownership and a rebuttable presumption at lower levels, such as 10 percent. In reviewing a proposed change in control, the FDIC should consider the financial condition of the acquirer; the acquirer's competence, experience, and integrity; the acquirer's ability to maintain compliance with GENIUS Act requirements; and the potential risks to the PPSI, any affiliated insured depository institution, and the broader financial system. The FDIC should also retain authority to block or condition a proposed transaction and to impose additional requirements where necessary.

ICBA urges the FDIC to implement this safeguard to avoid creating a less regulated pathway for controlling financial institutions and to protect the safety and soundness of affiliated insured depository institutions and the DIF. ICBA also suggests that the FDIC coordinate with its fellow regulators to ensure that similar change in control requirements are applicable to all PPSIs subject to federal supervision.

8. The FDIC Should Permit Each PPSI to Issue Only a Single Payment Stablecoin Brand

The FDIC should only allow PPSIs to issue one brand of payment stablecoin. A problem affecting one stablecoin brand—whether driven by liquidity pressures, operational failures, or cyber incidents—could quickly spread to other brands issued by the same entity, given shared governance, infrastructure, and reputational linkages. Allowing a PPSI to issue multiple stablecoin brands could introduce disparate risk profiles within the same entity. For example, one stablecoin could be backed primarily by low-risk bank deposits while another is supported

by a different mix of reserve assets. This variation would create inconsistent risk exposure for users and complicate supervisory oversight, increasing the likelihood of market confusion and instability.

The risks are further compounded by differences in blockchain infrastructure. Stablecoins issued on multiple blockchains may be subject to distinct operational, technological, and governance risks. If a PPSI issues separate stablecoins across different blockchain networks, users could face materially different outcomes—for instance, one network could experience outages or software failures while another continues to operate. This fragmentation undermines the consistency and reliability expected of a payment instrument.

The FDIC should also consider the de-pegging risks that come with issuers offering multiple payment stablecoin. For example, after the collapse of Silicon Valley Bank, USDC, fell to $0.88 despite its intended 1:1 backing.[69] This incident demonstrated that, regardless of a stablecoin's design, de-pegging remains a real risk and can erode trust in both stablecoins and the broader banking system. Introducing multiple stablecoin brands within a single issuer would increase the likelihood of such events and could amplify contagion risks across products. ICBA is concerned that even if a PPSI's various brands of payment stablecoins are properly allocated by a uniform reserve asset percentage, it would not negate the possibility of one of the brands facing financial issues. Different brands are susceptible to changes in monetary policy if a bank loses a significant amount in deposits to payment stablecoins.[70] Even if each stablecoin brand is nominally supported by reserves meeting regulatory standards, differences in structure, usage, or underlying technology could lead to divergent risk outcomes.

Likewise, payment stablecoins are inherently exposed to cybersecurity and illicit finance risks. Foreign and domestic illicit actors may take advantage of any potential weaknesses in the software of a permitted or foreign issuer, resulting in money laundering.[71] If a vulnerability is exploited in one stablecoin brand or on a particular blockchain, it could undermine confidence in the issuer as a whole. Such an event could trigger broader disruptions, including pressure on affiliated deposits and potential spillovers to the banking system. For these reasons, limiting PPSIs to a single payment stablecoin would reduce operational complexity, enhance supervisory clarity, and better protect both users and the broader financial system.

PART III: DEPOSIT INSURANCE COVERAGE

The FDIC proposes to amend its deposit insurance rules, found in part 330 of the FDIC's regulations, to clarify that deposits held as reserves for a payment stablecoin are not insured to payment stablecoin holders on a pass-through basis. Under the NPR, such deposits would be insured as corporate deposits of their owner, the PPSI. Specifically, under the proposal, all deposits maintained by a PPSI at an insured depository institution would be added together for

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[69] Elizabeth Howcroth & Rishabh Jaiswal, *Circle Assures Market After Stablecoin USDC Breaks Dollar Peg* (Mar. 11, 2023), https://www.reuters.com/business/crypto-firm-circle-reveals-33-bln-exposure-silicon-valley-bank-2023-03-11/.

[70] Nellie Liang, *Essential Features for a Safe and Trusted Payment Stablecoin,* Brookings (May 8, 2025), https://www.brookings.edu/articles/essential-features-for-a-safe-and-trusted-payment-stablecoin/.

[71] *Id.*

purposes of the deposit insurance limit, regardless of whether those deposits consist of reserves backing payment stablecoins or serve some other purpose (such as paying the PPSI's operating expenses). The PPSI's deposits would not be insured to payment stablecoin holders on a pass-through basis.

Question 125: Is the FDIC's proposed treatment of deposits that comprise reserves for a payment stablecoin under section 4 of the GENIUS Act (12 U.S.C. 5903(a)(1)(A)(ii)) appropriate? Is this the best reading of the GENIUS Act and FDI Act?

ICBA strongly supports the FDIC's proposed clarification that deposits held as reserves for a payment stablecoin are not insured to payment stablecoin holders on a pass-through basis. This clarification is consistent with the GENIUS Act's prohibition on marketing or representing payment stablecoins as federally insured or guaranteed.[72] The GENIUS Act makes clear that payment stablecoins are not "subject to deposit insurance" or guaranteed by the U.S. government.[73] The GENIUS Act also prohibits payment stablecoin issuers or other parties from representing "that payment stablecoins are backed by the full faith and credit of the United States, guaranteed by the United States Government, or subject to Federal deposit insurance or Federal share insurance."[74] Although the GENIUS Act is silent on whether FDIC pass-through insurance could apply to payment stablecoins, treating stablecoin holders as insured depositors on a pass-through basis conflicts with the GENIUS Act's express prohibition on payment stablecoins being "subject to Federal deposit insurance." Given this legislative silence with the statutory text, it is clear Congress did not intend for stablecoin holders to be "subject to Federal deposit insurance" on a pass-through basis. Therefore, the FDIC's proposal that pass-through deposit insurance will not apply to these end-customers is the best interpretation of the GENIUS Act.

Question 126: If payment stablecoin reserves were eligible for pass-through deposit insurance, to what extent would PPSIs satisfy pass-through requirements, either today or in the future? Should the requirements be tailored for PPSIs in any way, and if so, how?

PPSIs do not satisfy the FDIC's current pass-through rules which require end-customer identities and interests to be ascertainable from an insured depository institutions' books and records in the regular course of business.[75] To the extent that anonymity is a key feature of stablecoin holders, it is also a feature that appropriately precludes the FDIC from extending pass-through insurance to these end-customers. ICBA would strongly oppose any proposal to depart from the

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[72] 12 U.S.C. § 5903(e)(1) ("Payment stablecoins shall not be backed by the full faith and credit of the United States, guaranteed by the United States Government, subject to deposit insurance by the Federal Deposit Insurance Corporation, or subject to share insurance by the National Credit Union Administration.").

[73] *Id.*

[74] 12 U.S.C. § 5903(e)(2). Section 4(a)(9) further prohibits an issuer marketing a payment stablecoin in a manner that could imply that stablecoins are "guaranteed or approved by the Government of the United States." 12 U.S.C. § 5903(a)(9).

[75] *See* 12 C.F.R. 330.5 and 12 C.F.R. 330.7 ("The records of the IDI, third party depositing the funds, or another third party in the usual course of business must indicate both the identities of the principals as well as their ownership interests in the deposit.").

FDIC's longstanding pass-through rules by providing anonymous end-customers the benefit of deposit insurance.

Question 128: If payment stablecoin reserves are eligible for pass-through deposit insurance, what impact would that have on the Deposit Insurance Fund?

Deposit insurance is a critical defining benefit of traditional bank deposits, serving as a key differentiator between "deposits" and "deposit alternatives" like payment stablecoins. If payment stablecoin reserves were eligible for pass-through deposit insurance, payment stablecoins would likely become more widely utilized, not just as a "deposit alternative," but as a full substitute for traditional bank deposits. Given the potential for international end-customers to purchase and use payment stablecoins within the U.S. financial system, it is likely that the volume of payment stablecoins flowing into the United States would significantly increase if payment stablecoins were a true substitute for deposits. This, in turn, would drastically increase risk exposure to the DIF as the volume of covered deposits and deposit insurance beneficiaries would also increase.

The federal safety net and the DIF are not limitless. The DIF has been funded (and at times rebuilt), over the course of generations, by thousands of banks that pay high assessments, on a frequent basis, to protect against the risk of bank failures and systemic risk. ICBA strongly opposes any proposal to expand the federal safety net to stablecoin reserves, where inherently risky PPSIs could exponentially increase the payout demands of the DIF without having paid a penny into the DIF to obtain the benefits of deposit insurance. Allowing payment stablecoin reserves to be eligible for pass-through deposit insurance provides PPSIs with free access to the DIF, which almost certainly will result in higher assessments to community banks to subsidize this additional risk. The FDIC must take all necessary measures to avoid this outcome and ensure the bank funded DIF remains available to protect community banks without the need for higher assessments.

PART IV: TOKENIZED DEPOSITS

In addition to implementing certain GENIUS Act requirements, the NPR seeks to clarify the treatment of tokenized deposits and asks several questions about how tokenized deposits should be treated for deposit insurance, resolution, and other purposes. Under the NPR, the term "tokenized deposit":

> generally refers to a tokenized form of an IDI's deposit liability recorded in an on-chain or off-chain account enabled with distributed ledger technology. 'Deposit tokens' are similar in application to tokenized deposits. Generally, a deposit token is more digitally native without a credit in a corresponding account. The terms 'tokenized deposit' and 'deposit token' are sometimes used interchangeably when discussing deposit tokenization. For purposes of this proposal, 'tokenized deposit' is intended as a general term to include 'deposit token.'[76]

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[76] *See* GENIUS Act Requirements and Standards for FDIC-Supervised Permitted Payment Stablecoin Issuers and Insured Depository Institutions, *supra* note 3, at 18534, footnote 3.

ICBA appreciates the FDIC's effort to provide clarity about how the agency views and will treat deposits that leverage new technology. At the same time, ICBA has significant concerns about using this NPR platform to resolve broader legal and regulatory issues surrounding tokenized deposits, as well as about the specific approach reflected in the NPR.

First, ICBA is concerned that the FDIC is moving forward without coordinating with the OCC and the Federal Reserve on how tokenized deposits fit within the existing banking regulatory framework. This lack of coordination creates a serious risk of inconsistent supervisory expectations for a core banking product. Deposits sit at the center of the banking experience, prudential supervision, liquidity management, and customer trust. As President Roosevelt remarked in his 1933 fireside speech on the banking crisis, the "confidence of the people" is the most critical element to the success of the American banking system.[77] The FDIC must be certain that any effort to reassess the meaning of "deposit" is done with the utmost care and deliberate engagement with the banking industry to ensure that depositors remain certain that this foundational element remains as secure in the future as it is today.

Therefore, clarifying how tokenized deposits should be treated requires close alignment across the federal banking agencies. Without corresponding guidance from the OCC and Federal Reserve, banks cannot know whether the FDIC's position reflects a shared prudential view or only one agency's interim approach. That uncertainty is especially problematic for community banks, which need clear and durable standards before they commit resources to new operational and technological investments.

Second, ICBA believes that tokenized deposits should be evaluated through a coordinated interagency and industry process rather than through isolated agency action. The Federal Reserve's work on faster payments provides a useful model. That effort succeeded because it identified system-wide needs, established common objectives, and helped institutions of all sizes prepare for modernization.[78] The Federal Reserve's subsequent development of the FedNow instant payment service further advanced that goal by promoting broader access to instant payments across the banking system. Tokenized deposits raise similarly significant systemic questions and should be approached with the same commitment to coordination, common standards, and broad participation. A fragmented approach risks discouraging responsible innovation, creating uneven regulatory expectations, and favoring the largest institutions that are best positioned to absorb legal and supervisory uncertainty. Regulatory fragmentation and uncertainty could also leave bank-developed tokenized deposit projects as "walled gardens," isolated from each other due to inadequate efforts to encourage interoperability and stranded from the growing ecosystem of digital assets on public, permissionless blockchains.

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[77] Franklin D. Roosevelt, *Transcript of Speech by President Franklin D. Roosevelt Regarding the Banking Crisis* (Mar. 12, 1933), https://www.fdic.gov/history/transcript-speech-president-franklin-d-roosevelt-regarding-banking-crisis.

[78] Bd. of Governors of the Fed. Rsrv. Sys., *Strategies for Improving the U.S. Payment System* (Jan. 26, 2015), at 2, https://www.federalreserve.gov/newsevents/pressreleases/other20150126a.htm.

However, in the absence of a separate rulemaking process to expand on the meaning of tokenized deposits and their regulatory treatment, ICBA offers the following views from community bankers in the sections below. Our comments reveal that bankers are cautiously interested in tokenized deposits; however, they believe the FDIC must provide answers to several critical questions before tokenized deposits can become integrated into real-world products and services accessible to community banks and their customers.

Question 131 of the NPR asks if the FDIC's proposed amendment to Part 330 clarifying that the application of deposit insurance to deposits does not depend upon the technology or recordkeeping used to record a bank's deposit liabilities is appropriate and whether the FDIC should consider a more narrow amendment specifically focused on tokenized deposits. The NPR amends the definition of "deposit account records" in Section 330.1(e) by striking the phrase "including records maintained by computer" and replacing that phrase with the new phrase "regardless of the technology or type of recordkeeping utilized". The stated intent of this change is to reflect the technology neutral nature of the definition of "deposit' in section 3 of the FDI Act. ICBA agrees that the definition of deposit in the FDI Act is technology neutral and the proposed change to Section 330.1(e) is appropriate.

Tokenized deposits offer traditional insured depository institutions, including community banks, an opportunity to participate in the evolving digital currency landscape. Many community banks are interested in participating and competing in the digital currency markets, provided the playing field is level with nonbank digital currencies and with larger banks that reportedly are already planning to launch a deposit token network as early as 2027,[79] and provided there is a clear regulatory landscape for digital currencies, including tokenized deposits.

Tokenized deposits offer an attractive alternative to payment stablecoins issued by nonbanks. The regulation and supervision of insured depository institutions that issue tokenized deposits as well as applicable deposit insurance coverage provide customers with a level of certainty and security greater than with payment stablecoins. In addition, tokenized deposits have the same use case as traditional currency in banking including domestic and cross-border payments, collateral and settlement.

The NPR does not examine or address many prevailing questions about the treatment and performance of tokenized deposits. To illustrate: should all tokenized deposits be treated the same from a regulatory and capital perspective if they are recorded on a single bank ledger, a shared ledger, or a universal ledger? How will tokenized deposits be treated in a failing or troubled bank scenario? Will tokenized deposits have the same characteristics as other insured and uninsured deposits in a failing or failed IDI?

ICBA believes that it is important to assess the opportunities and challenges associated with tokenized deposits and to diminish uncertainty in favor clarity as the FDIC has indicated is its overall objective. **ICBA requests that the FDIC quickly issue a Request for Information to begin this process and initiate a separate rulemaking as necessary to address pertinent**

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[79] *See* Gina Heeb and Vicky Ge Huang, *JPMorgan, Citi and Big Banks Plan New Tokenized Deposit System to Answer Crypto*, Wall Street Journal (June 4, 2026).

issues and questions regarding tokenized deposits. Determining how to treat tokenized deposits should be coordinated with the OCC and the Federal Reserve and should begin with providing factual information and rigorous analysis for public comment rather than the few questions asked in conjunction with this GENIUS Act rulemaking.

A. Community Bankers Support a Technology-Neutral Approach

Community bankers broadly support a technology-neutral approach to allow for tokenized deposits to exist within the current regulatory framework instead of creating a separate regulatory categorization. ICBA members have a strong preference for treating qualifying tokenized deposits as traditional bank deposits rather than as a new or hybrid asset category, especially one in which boundaries could quickly shift as digital asset technology rapidly advances and iterates novel products and system architectures.

B. Community Bankers Have Diverse Views on Deposits on Public Blockchains

One of the most divisive issues related to the NPR is whether tokenized deposits can operate on public, permissionless blockchains that permit transfers among unhosted wallets outside traditional Know Your Customer and anti-money laundering controls. Although some digital asset advocates regard this feature as an important reduction in reliance on regulated intermediaries, it raises fundamental questions about whether such a structure is consistent with the legal and operational characteristics of a bank deposit.

A bank deposit is a liability of the issuing institution and reflects a continuing legal relationship with an identified customer.[80] The bank must maintain records showing who owns the funds, what amount is owed, and when a withdrawal or transfer has been authorized. If a bank uses a new technological system to record or transfer that liability, the system must still preserve these core features of deposit ownership, authorization, and account reconciliation. Any framework for tokenized deposits must therefore explain how these requirements would be maintained if tokens can move beyond the issuing bank's customer and compliance perimeter. Many community bankers believe that once a token is capable of moving beyond the issuing bank's customer and compliance perimeter, it becomes substantially more difficult to treat that instrument as a bank deposit under the existing legal and regulatory framework.

Payment stablecoins do not present the same issue in the same way. They are designed to circulate as transferable tokens backed by reserves held in bank deposits and other high-quality liquid assets. Issuers generally update their records at issuance and redemption, rather than each time the token changes hands. Deposits are different. They depend on an ongoing bank-customer relationship, and the movement of funds ordinarily requires authorization within that relationship. For that reason, the FDIC should not presume that a transferable blockchain-based token remains a bank deposit simply because it references a bank liability; it should explain how that instrument can satisfy the legal, operational, and supervisory requirements that define a deposit in the first place.

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[80] *See* 12 U.S.C. 1813(l) and associated Call Report Schedules for Deposits (*e.g.*, Schedules RC, RC-E, and RC-O).

C. Tokenized Deposits May Exist on a Spectrum

Because the legal and supervisory questions raised by tokenized deposits depend heavily on how freely those instruments can circulate, ICBA believes the FDIC should distinguish among tokenized deposit models with different levels of transferability and mobility. In particular, the FDIC should explain how the following arrangements fit within existing legal, operational, and supervisory frameworks:

1. Tokenized deposits that operate solely within a bank-controlled environment, where the ledger and all transfers remain within a single bank's systems and customer base.

2. Tokenized deposits that operate on a closed network of participating banks, such as a shared platform or consortium model, where transfers occur only among institutions and users within the network.

3. Tokenized deposits that are capable of circulating across public, permissionless blockchains, including through interaction with decentralized finance protocols and wallets outside the issuing bank's customer and compliance perimeter.

Concerns regarding tokenized deposits may be significantly reduced, and in some cases eliminated, when tokenized deposits remain within a single bank-controlled environment. Those concerns become more complex in closed interbank networks and substantially more acute when tokenized deposits are capable of moving across public, permissionless blockchains outside the issuing bank's customer and compliance perimeter. The FDIC should therefore work with the banking industry and the other prudential regulators to provide clear guidance on how each of these models will be treated under the existing legal and regulatory framework.

D. The FDIC NPR Does Not Address Settlement

The NPR does not adequately address settlement, even though settlement is essential to whether tokenized deposits can function as a practical payment system. Payment systems do not operate simply because claims are exchanged between banks; they operate because those claims can be settled reliably and with finality across institutions. In the United States, the Federal Reserve plays a central role in that process by supporting interbank settlement for payment networks such as the ACH Network and the FedNow instant payment service. Any serious effort to evaluate tokenized deposits as a payment mechanism must therefore account for how settlement would occur and what role the Federal Reserve would play.

The absence of corresponding guidance or engagement from the Federal Reserve is a significant gap in the current exploratory framework. If the FDIC wants to encourage tokenized deposits as a means of keeping more deposits within the banking system, it cannot evaluate that concept in isolation from the nation's settlement architecture. Although the Federal Reserve has conducted substantial research on tokenized deposits—including ongoing participation by the New York Federal Reserve in the Bank for International Settlements' work on tokenized commercial bank money and tokenized central bank money—neither the FDIC nor the OCC has articulated a clear strategy for how tokenized deposits would be integrated into the payments system. Until that question is addressed through closer interagency coordination, banks—

especially community banks—will lack clarity about whether tokenized deposit projects can achieve interoperability, settle effectively across institutions, and scale beyond isolated bank-specific or consortium-specific environments.

E. FDIC Should Adopt a Pilot Approach

For the reasons described above, ICBA and its members encourage the FDIC to adopt a phased pilot approach to tokenized deposits rather than permit broad implementation before the relevant legal, operational, settlement, and supervisory questions have been resolved. If the FDIC, OCC, and Federal Reserve determine that tokenized deposits may become an important component of the future U.S. payments system, then those agencies should begin with limited pilots and a clear, incremental rollout rather than with an immediate, unrehearsed large-scale deployment as a reaction to significant stablecoin-induced deposit flight. A deliberate and rigorous pilot framework would allow regulators and banks to test how tokenized deposits function in practice, evaluate risk-management expectations, and determine whether these products can operate in a manner consistent with existing banking law and supervisory standards.

The Federal Reserve's development of the FedNow instant payment service provides a useful model. Before broader launch, the Federal Reserve spent years identifying operational risks, preparing institutions, and testing the system with a limited group of participants, including community banks. That deliberate approach helped promote broader access to innovation while reducing the risk of operational or supervisory failure. Tokenized deposits raise even more fundamental questions than instant payments, including questions of legal characterization, interoperability, customer scope, and settlement finality. Those issues warrant at least as much caution.

ICBA recognizes that rapid growth in payment stablecoins may increase pressure on regulators and banks to identify alternatives that preserve deposits within the banking system and sustain community bank lending capacity. That possibility is not a reason to engage in a forced march into a new, untested framework before it is ready. Rather, it is a reason to begin coordinated pilot work now, so that policymakers are not forced into rushed decisions later if stablecoin adoption accelerates and deposit disintermediation becomes more acute. If community banks experience deposit losses approaching the estimates described earlier in this letter, regulators will need a well-developed framework—not an improvised response—to protect funding stability, credit availability, and the long-term resilience of the U.S. banking system.

F. Additional Implementation Considerations to Support Participation in Tokenized Deposits

1. The Final Rule Should Accommodate Consortium-Based Tokenized Deposit Arrangements

The FDIC should recognize that, if tokenized deposits develop at scale, participation may become more likely through shared or consortium-based arrangements than through proprietary, closed systems. The final rule should therefore be flexible enough to accommodate consortium structures rather than assuming that only the largest institutions can operate tokenized deposit arrangements. The final rule should not unintentionally foreclose models that could allow

participation on reasonable terms. Critically, the FDIC should avoid a framework that effectively requires every bank to build a fully standalone tokenized deposit system, which would discourage participation.

2. The Final Rule Should Recognize Potential Reliance on Vendors and Third-Party Partners

Many potential participants interested in offering tokenized deposits are likely to access the technology through service providers, core processors, or other third-party partners, rather than building all infrastructure internally. The final rule should expressly recognize this operating reality and provide clarity on how tokenized deposit activity may be conducted through appropriately managed third-party arrangements. Expectations should be tailored and scaled so they are workable for banks of all sizes and do not amount to a de facto requirement that banks internalize all technology functions.

3. The FDIC Should Coordinate with State Supervisors on Tokenized Deposit Activity

The FDIC should coordinate closely with state banking supervisors in developing and supervising tokenized deposit activity. Tokenized deposit frameworks that depend only on federal supervisory assumptions risk creating uncertainty for state nonmember banks and their supervisors.

The final rule should be implemented in a way that promotes consistent expectations for state-chartered institutions and avoidance of duplicative or inconsistent review.

Coordination with state supervisors is especially important where tokenized deposit arrangements involve consortium participation, third-party technology providers, novel settlement mechanics, or custody and recordkeeping questions.

The FDIC should make clear that state-chartered banks are not an afterthought in the tokenized deposit discussion and that any supervisory framework should be workable for the dual banking system.

CONCLUSION

ICBA appreciates the opportunity to provide comments to the FDIC on the NPR to implement the GENIUS Act. As explained in our comments, the NPR raises significant questions for community bank funding, credit availability, the structure of the U.S. banking system, and the appropriate role of the bank-funded Deposit Insurance Fund. The FDIC should move deliberately and with full public input to ensure that its final rule protects the banking system, prevents regulatory arbitrage, and does not accelerate the migration of deposits and lending capacity away from community banks. ICBA also urges the FDIC to address tokenized deposits quickly through a coordinated interagency process. We appreciate the FDIC's consideration of these comments and look forward to continued engagement on these issues.

If you have any questions about the comments provided in this letter, please reach out to Brian Laverdure (brian.laverdure@icba.org) or Amy Ledig (amy.ledig@icba.org).

Sincerely,

/S/
Brian Laverdure
SVP, Digital Assets & Innovation Policy

/S/
Amy Ledig
VP, Safety & Soundness Regulatory Counsel