7535-01-U

NATIONAL CREDIT UNION ADMINISTRATION

12 CFR Parts 702, 704, 706, 745, and 747

RIN 3133-AG10

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 National Credit Union Administration

AGENCY: National Credit Union Administration (NCUA).

ACTION: Supplemental proposed rule.

SUMMARY: The NCUA Board (Board) is seeking comment on proposed regulations to implement portions of the Guiding and Establishing National Innovation for U.S. Stablecoins Act (GENIUS Act). The GENIUS Act charges the NCUA with licensing, regulating, and supervising Payment Stablecoin issuers that are subsidiaries of federally insured credit unions (FICU subsidiaries). In February 2026, the NCUA issued proposed regulations to govern investments in and licensing of permitted payment stablecoin issuers subject to the NCUA's jurisdiction. This current proposal supplements the previous proposal and would govern the issuance of Payment Stablecoins and certain related activities by entities subject to the NCUA's jurisdiction. This proposal would also make amendments to address share insurance coverage, tokenized shares, and other conforming and clarifying amendments.

DATES: Comments must be received by **[INSERT DATE 60 DAYS AFTER DATE OF PUBLICATION IN THE *FEDERAL REGISTER*]**.

ADDRESSES: Comments may be submitted in one of the following ways. **(Please send comments by one method only)**:

- *Federal eRulemaking Portal: https://www.regulations.gov.* The docket number for this proposed rule is NCUA–2026–1024. Follow the "Submit a comment" instructions. If you

are reading this document on federalregister.gov, you may use the green "SUBMIT A PUBLIC COMMENT" button beneath this rulemaking's title to submit a comment to the regulations.gov docket. A plain language summary of the proposed rule is also available on the docket website.

- *Mail:* Address to Melane Conyers-Ausbrooks, Secretary of the Board, National Credit Union Administration, 1775 Duke Street, Alexandria, Virginia 22314–3428.
- *Hand Delivery/Courier*: Same as mailing address.

Mailed and hand-delivered comments must be received by the close of the comment period.

Public inspection: Please follow the search instructions on *https://www.regulations.gov* to view the public comments. Do not include any personally identifiable information (such as name, address, or other contact information) or confidential business information that you do not want publicly disclosed. All comments are public records; they are publicly displayed exactly as received, and will not be deleted, modified, or redacted. Comments may be submitted anonymously. If you are unable to access public comments on the internet, you may contact the NCUA for alternative access by calling (703) 518–6540 or emailing *OGCMail@ncua.gov.*

FOR FURTHER INFORMATION CONTACT: *Office of Examination and Insurance:* Amanda Parkhill, at (703) 518-6385 or at 1775 Duke Street, Alexandria, VA 22314. *Office of General Counsel:* Thomas Zells and Rachel Ackmann, Senior Staff Attorneys; or Ariel Woodard-Stephens, Staff Attorney at (703) 518-6540 or at the above address.

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VI. Regulatory Procedures

I. Background

On July 18, 2025, President Trump signed the GENIUS Act into law. The GENIUS Act establishes a regulatory framework for Payment Stablecoins and provides pathways for regulation at both the Federal and State level.

Stablecoins are Digital Assets, i.e., digital representations of value recorded on a cryptographically secured Distributed Ledger,[1] such as a blockchain.[2] In contrast to many other types of Digital Assets, stablecoins are intended to maintain a stable value relative to a reference asset, most often fiat currency.[3] Most stablecoin issuers use a pool of high quality and highly liquid reserve assets to back the stablecoin and maintain a stable value.[4] Stablecoins often rely on smart contracts (*i.e.*, self-executing programs that automatically enforce agreements between users) for different aspects of their functionality.[5] When an issuer redeems a tendered stablecoin, it typically accepts a stablecoin from a user or third party in exchange for a fixed amount of Monetary Value, *e.g.*, one dollar.[6] Stablecoins are frequently used to facilitate trading in Digital Assets and may be used for retail and institutional payments.[7] Certain stablecoin issuers have the capability to freeze funds or block transactions involving their stablecoin, which they may do, for example, to effectuate a court order.[8]

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[1] 12 U.S.C. 5901(6).
[2] White House, "Strengthening American Leadership in Digital Financial Technology," at 15 (July 17, 2025), [hereinafter, Digital Financial Technology Report], https://www.whitehouse.gov/wp-content/uploads/2025/07/Digital-Assets-Report-EO14178.pdf. A cryptographically secured ledger uses cryptography to maintain the integrity of the ledger. *See also* E.O. No. 14178, Strengthening American Leadership in Digital Financial Technology, 90 FR 8647 (Jan. 31, 2025) (defining blockchain to mean "any technology where data is: (i) shared across a network to create a public ledger of verified transactions or information among network participants; (ii) linked using cryptography to maintain the integrity of the public ledger and to execute other functions; (iii) distributed among network participants in an automated fashion to concurrently update network participants on the state of the public ledger and any other functions; and (iv) composed of source code that is publicly available").
[3] Digital Financial Technology Report at 88, 130.
[4] *See id.* at 90.
[5] *See id.* at 11.
[6] Currently, rather than mint or redeem stablecoins through the issuer, most market participants rely on digital asset trading platforms to exchange stablecoins for national currencies (or even other stablecoins).
[7] *Id.* at 93.
[8] *See id.* at 105.

The GENIUS Act focuses on a subset of stablecoins: Payment Stablecoins. Under section 2(22) of the Act, "payment stablecoin" means "a digital asset—(i) that is, or is designed to be, used as a means of payment or settlement; and (ii) the issuer of which—(I) 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 (II) represents that such issuer will maintain, or create the reasonable expectation that it will maintain, a stable value relative to the value of a fixed amount of monetary value[.]"[9] The term does not include a Digital Asset that is (i) a national currency; (ii) a deposit, including a deposit recorded using distributed ledger technology; or (iii) a security, as defined in 15 U.S.C. 77b, 78c, or 80a-2.[10]

The GENIUS Act generally prohibits any Person other than a permitted payment stablecoin issuer (PPSI) from issuing a Payment Stablecoin in the United States.[11] It further prohibits digital asset service providers[12] from offering or selling a Payment Stablecoin to a Person in the United States unless the issuer is a PPSI or the issuer is a foreign payment stablecoin issuer that meets certain requirements.[13] The GENIUS Act sets forth various

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[9] 12 U.S.C. 5901(22).

[10] The Act provides that, for the avoidance of doubt, no bond, note, evidence of indebtedness, or investment contract that was issued by a permitted payment stablecoin issuer shall qualify as a security solely by virtue of its satisfying the conditions described in section 2(22)(A) of the Act, consistent with section 17 of the Act. 12 U.S.C. 5901(22)(B)(iii).

[11] See 12 U.S.C. 5902(a). See also 12 U.S.C. 5916 (excepting foreign payment stablecoin issuers that meet certain requirements from the prohibition in section 3 of the Act).

[12] "Digital asset service provider" means a person that, for compensation or profit, engages in the business in the United States (including on behalf of customers or users in the United States) of: (1) exchanging digital assets for monetary value; (2) exchanging digital assets for other digital assets; (3) transferring digital assets to a third party; (4) acting as a digital asset custodian; or (5) participating in financial services relating to digital asset issuance. See 12 U.S.C. 5901(7). The term "digital asset service provider" does not include (1) a distributed ledger protocol; (2) an immutable and self-custodial software interface; or (3) a person solely by virtue of their (A) developing, operating, or engaging in the business of developing distributed ledger protocols or self-custodial software interfaces; (B) developing, operating, or engaging in the business of validating transactions or operating a distributed ledger; or (C) participating in a liquidity pool or other similar mechanism for the provisioning of liquidity for peer-to-peer transactions. See id. A liquidity pool is a portfolio of digital assets that is algorithmically bound and traded based on smart contracts. Liquidity providers and takers interact with liquidity pools by adding assets that the liquidity pools trade and receive a liquidity pool token in return that is proportionate to the percentage of assets they have contributed to the liquidity pool. Digital Financial Technology Report at 23.

[13] The prohibition against digital asset service providers offering or selling Payment Stablecoins that are not issued by PPSIs begins on July 18, 2028. See 12 U.S.C. 5902(b)(1). The prohibition against digital asset service providers offering or selling Payment Stablecoins that are not issued by foreign payment stablecoin issuers that meet certain requirements goes into effect as of the effective date of the GENIUS Act. See 12 U.S.C. 5902(b)(2). The

regulatory and licensing requirements for PPSIs and foreign payment stablecoin issuers. In many instances, the GENIUS Act states that the specific requirements applicable to these entities (e.g., those related to capital, liquidity, operational risk management), shall be set forth by regulations issued by the relevant primary Federal payment stablecoin regulator, in coordination with other relevant agencies, as appropriate.[14] This proposed rulemaking represents one piece of the GENIUS Act's implementing regulations.[15]

Under the GENIUS Act, "insured depository institutions," which the Act defines to include both FDIC-insured depository institutions and FICUs (collectively referred to as "IDIs"), cannot be issuers of Payment Stablecoins. Instead, IDIs must use "subsidiaries" as issuers. The GENIUS Act defines the term "subsidiary of an insured credit union" to mean "(A) an organization providing services to the insured credit union that are associated with the routine operations of credit unions, as described in section 107(7)(I) of the Federal Credit Union Act (12 U.S.C. 1757(7)(I)); (B) a credit union service organization, as such term is used under part 712 of title 12, Code of Federal Regulations, with respect to which the insured credit union has an ownership interest or to which the insured credit union has extended a loan; and (C) a subsidiary of a State chartered insured credit union authorized under State law."[16] The GENIUS Act requires that issuers that are subsidiaries of IDIs (including subsidiaries of FICUs) must be regulated by the primary Federal payment stablecoin regulators and does not allow them to opt for the state-level regulatory framework. Thus, the NCUA has jurisdiction over Payment Stablecoin issuers that are FICU subsidiaries.

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prohibitions that apply to a digital asset service provider would apply to an issuer to the extent that the issuer is a digital asset service provider.

[14] *See, e.g.*, 12 U.S.C. 5903(a)(4), (b), (h).

[15] For example, on September 19, 2025, the Department of the Treasury issued an advance notice of proposed rulemaking concerning the GENIUS Act. See 90 FR 45159 (Sept. 19, 2025). On December 19, 2025, the FDIC released a notice of proposed rulemaking related to certain application provisions under the GENIUS Act. 90 FR 59409 (Dec. 19, 2025). On February 12, 2026, the NCUA issued a notice of proposed rulemaking relating to investments in and licensing of PPSIs. 91 FR 6531 (Feb. 12, 2026). On March 2, 2026, the OCC issued a notice of proposed rulemaking relating to the issuance of Payment Stablecoins and certain related activities by entities subject to the OCC's jurisdiction. 91 FR 10202 (Mar. 2, 2026).

[16] 12 U.S.C. 5901(33).

Under the GENIUS Act, only PPSIs may issue a Payment Stablecoin in the United States, subject to certain exceptions and safe harbors. PPSIs are subject to a number of requirements, including requirements related to reserves, capital, liquidity, illicit finance, and information technology risk management standards. For example, PPSIs must maintain reserves backing the Payment Stablecoin on a one-to-one basis using U.S. currency or certain other liquid assets, as specified. PPSIs must also publicly disclose their redemption policy and publish monthly the details of their reserves.

The GENIUS Act details the process for the primary Federal payment stablecoin regulators, which include the NCUA, the Federal Deposit Insurance Corporation (FDIC), the Office of the Comptroller of the Currency (OCC), and the Board of Governors of the Federal Reserve System (Federal Reserve Board), to evaluate and review applications for licenses to be PPSIs and provides examination, supervision, and enforcement authority over PPSIs. Other issues addressed in the GENIUS Act include the provision of custody services for Payment Stablecoins; application of the Bank Secrecy Act and anti-money laundering and economic sanctions requirements; and treatment of PPSIs in insolvency proceedings.

The GENIUS Act establishes clear prohibitions and penalties to prevent the misrepresentation of Federal backing or insurance for Payment Stablecoins and to ensure that only authorized products may be marketed as such.[17] The GENIUS Act explicitly dictates that Payment Stablecoins are not backed by the full faith and credit of the United States, they are not guaranteed by the U.S. Government, nor are they covered by deposit or share insurance from the FDIC or NCUA. Similarly, it is unlawful to market a product in the United States as a Payment Stablecoin unless it is issued pursuant to the GENIUS Act.[18]

As detailed below, the GENIUS Act imposes a number of rulemaking, review, and reporting requirements on the primary Federal payment stablecoin regulators, including the

[17] *See* 12 U.S.C. 5903(e).
[18] 12 U.S.C. 5903(e)(3).

NCUA. This supplemental proposal proposes regulations to implement the standards and restrictions imposed by the GENIUS Act on PPSIs (hereinafter, the "NCUA Standards Proposal"). This NCUA Standards Proposal supplements the notice of proposed rulemaking that the NCUA published in the *Federal Register* on February 12, 2026, entitled "Investments in and Licensing of Permitted Payment Stablecoins Issuers" (hereinafter, the "NCUA Licensing Proposal").[19]

Separately, as is required by the GENIUS Act, the NCUA is engaging in a required review of its existing guidance and regulations to determine what steps are necessary, if any, to amend or promulgate new regulations and guidance to clarify FICUs' authority to engage in the Payment Stablecoin activities and investments contemplated by the GENIUS Act.

In addition to the above, the GENIUS Act requires the NCUA to examine and supervise issuers that are FICU subsidiaries. Thus, the NCUA is working to update various NCUA examination policies, guidance, and procedures, such as the National Supervision Policy Manual and Examiner's Guide, to accommodate the new examination and supervision authority over these FICU subsidiaries. The NCUA is also working to determine whether further guidance to FICUs and FICU subsidiaries may be necessary on these subjects.

This proposal sets forth, and seeks comment on, the regulations that would apply to NCUA-Licensed Permitted Payment Stablecoin Issuers (NCUA-Licensed PPSIs) as well as certain custody activities conducted by FICUs and NCUA-Licensed PPSIs. These proposed regulations do not address stablecoins that do not qualify as Payment Stablecoins or issuers for which the NCUA does not have regulatory or enforcement authority. The GENIUS Act's effective date is the earlier of 18 months after the enactment date (July 18, 2025) or 120 days after the primary Federal payment stablecoin regulators issue final regulations implementing the GENIUS Act. The NCUA anticipates that these implementing regulations will be updated, as necessary, in the years following the effective date of the GENIUS Act as the business practices

[19] 91 FR 6531 (Feb. 12, 2026).

of NCUA-Licensed PPSIs continue to evolve and develop. In addition, other regulations beyond those addressed in this rulemaking may need to be updated in light of the passage of the GENIUS Act. This proposal would also make amendments to address share insurance coverage, tokenized shares, and other conforming and clarifying amendments.

A. Self-Executing Provisions

The GENIUS Act includes a number of self-executing provisions that are not addressed in this rulemaking. For example, the GENIUS Act includes several provisions addressing the applicability of State law to PPSIs. These provisions ensure that FICU subsidiaries approved to be NCUA-Licensed PPSIs are not subject to State licensure and address the effect of the GENIUS Act on State consumer protection laws.

Section 5(h) of the GENIUS Act expressly preempts "any State requirement for a charter, license, or other authorization to do business with respect to a" FICU subsidiary approved to be an NCUA-Licensed PPSI.[20] As a result, these entities are only required to obtain authorization to do business from the NCUA, which reduces the unnecessary complexity that would result from requiring these entities to also obtain a charter, license, or other authorization from one or more States. Section 7(f)(4) of the GENIUS Act provides that nothing in the GENIUS Act preempts State consumer protection laws.[21]

Together, these GENIUS Act provisions establish a framework for assessing the applicability of State law to a FICU subsidiary approved to be an NCUA-Licensed PPSI.[22] Because these GENIUS Act provisions are self-executing, the NCUA is not proposing regulatory text to implement them. However, the agency invites public comment on all aspects of this framework, including whether the self-executing provisions of the GENIUS Act should be codified in the NCUA's regulations for convenience.

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[20] 12 U.S.C. 5904(h).
[21] 12 U.S.C. 5906(f)(4).
[22] The GENIUS Act also addresses the applicability of State law to State qualified payment stablecoin issuers. *See, e.g.,* section 7(f) of the Act (12 U.S.C. 5906(f)).

II. Legal Authority

As discussed in Section I. Background of this SUPPLEMENTARY INFORMATION section, the NCUA is a primary Federal payment stablecoin regulator with respect to a FICU or FICU subsidiary.[23] As a primary Federal payment stablecoin regulator, the GENIUS Act provides authority for the NCUA to approve and license issuance of Payment Stablecoins through FICU subsidiaries,[24] establish regulations for issuing Payment Stablecoins,[25] and examine for and enforce applicable requirements imposed on FICU subsidiaries.[26] The GENIUS Act also confers authority related to standards for custody of Payment Stablecoins, Private Keys, and reserves.[27] The GENIUS Act grants the NCUA general authority to promulgate regulations to carry out the GENIUS Act through appropriate notice and comment rulemaking.[28]

Apart from the GENIUS Act, the FCU Act grants the NCUA a broad mandate to issue regulations governing both Federal Credit Unions (FCUs) and all FICUs. Section 120 of the FCU Act is a general grant of regulatory authority, and it authorizes the Board to prescribe rules and regulations for the administration of the FCU Act.[29] Section 209 of the FCU Act is a plenary grant of regulatory authority to the NCUA to issue rules and regulations necessary or appropriate to carry out its role as share insurer for all FICUs.[30]

Additionally, Section 204 of the FCU Act authorizes the Board, through its examiners, "to examine any [federally] insured credit union . . . to determine the condition of any such credit union for insurance purposes."[31] Section 206(e) of the FCU Act authorizes the Board to take certain actions against a FICU, if, in the opinion of the Board, the credit union "is engaging or has engaged, or the Board has reasonable cause to believe that the credit union or any institution

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[23] 12 U.S.C. 5901(25)(B).
[24] 12 U.S.C. 5904.
[25] 12 U.S.C. 5903(h).
[26] 12 U.S.C. 5903 and 5905.
[27] 12 U.S.C. 5909.
[28] 12 U.S.C. 5913.
[29] 12 U.S.C. 1766.
[30] 12 U.S.C. 1789.
[31] 12 U.S.C. 1784.

affiliated party is about to engage, in any unsafe or unsound practice in conducting the business of such credit union."[32] Therefore, the Board has statutory authority to determine whether a FICU is operated in an unsafe or unsound manner and terminate a FICU's insurance if a FICU is not operated in a safe or sound manner.

With respect to proposed amendments to clarify the share insurance coverage of funds deposited in Share Accounts at FICUs that serve as Reserve Assets and the treatment of tokenized Share Accounts, in addition to the broad FCU Act authorities provided in sections 120 and 209 of the FCU Act, the FCU Act provides that the "[d]etermination of the net amount of share insurance under subparagraph (A), shall be in accordance with such regulations as the Board may prescribe…"[33] and that the "Board may define, with such classifications and exceptions as it may prescribe, the extent of the share insurance coverage provided for member accounts…."[34] As discussed later in this preamble, the FCU Act also defines the term "member account."[35] The NCUA insures member accounts at all FICUs. Importantly, this term is not limited to those persons enumerated in the credit union's field of membership who have become members. It also includes as member accounts certain nonmembers, such as other nonmember credit unions; nonmember public units and political subdivisions; and, in the case of credit unions serving predominantly low-income members, deposits of nonmembers generally. In other words, the NCUA provides share insurance coverage to members and those otherwise eligible to maintain insured accounts at FICUs.

III. The NCUA Licensing Proposal

On February 12, 2026, the NCUA published a notice of proposed rulemaking in the *Federal Register* entitled "Investments in and Licensing of Permitted Payment Stablecoins Issuers." The NCUA Licensing Proposal served as the first of two main proposed rules that

[32] 12 U.S.C. 1786.
[33] 12 U.S.C. 1787(k)(1)(B).
[34] 12 U.S.C. 1787(k)(1)(C).
[35] 12 U.S.C. 1752(5).

the NCUA anticipated issuing to implement the GENIUS Act. The NCUA is providing a high-level summary of that proposal to assist stakeholders as they review this second NCUA supplemental proposed rulemaking, the NCUA Standards Proposal, addressing standards for NCUA-Licensed PPSIs and FICUs, among other subjects.

The NCUA interprets the GENIUS Act to limit PPSI status to those institutions functioning as a subsidiary of an IDI (including a FICU),[36] a Federal qualified payment stablecoin issuer,[37] and a State qualified payment stablecoin issuer.[38] FICUs are not permitted to issue Payment Stablecoins directly. However, the GENIUS Act provides that subsidiaries of IDIs may apply and be approved to be PPSIs. As FICUs are expressly defined as IDIs, FICU subsidiaries may apply for and receive approval and license under the GENIUS Act to be PPSIs.

Section 5 of the GENIUS Act establishes the procedures and standards for the "approval of subsidiaries of insured depository institutions."[39] The NCUA is required to "receive, review, and consider for approval applications" to issue Payment Stablecoins through a FICU subsidiary and to "establish a process and framework for the licensing, regulation, examination and supervision of such entities that prioritizes the safety and soundness of such entities." Section 5(a)(2) requires the NCUA to issue regulations to carry

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[36] As discussed throughout the proposed rule, the GENIUS Act uses banking-specific terminology when defining PPSIs. For example, the GENIUS Act uses the two defined terms "subsidiary" and "insured depository institution" without using the defined term, "subsidiary of an insured credit union." With respect to subsidiaries of FICUs, the Board believes the defined terms "subsidiary" of an "insured depository institution" should be read referring to the defined term "subsidiary of an insured credit union." Given that FICUs are defined as insured depository institutions, it appears reasonable to read the terms synonymously. Additionally, the GENIUS Act expressly provides that all subsidiaries of an Insured Credit Union are subject to NCUA jurisdiction incorporating the defined term of "subsidiary of an insured credit union" into the definition of primary Federal payment stablecoin regulator. The term primary Federal payment stablecoin regulator is used for approvals under section 5 and it would be inharmonious for the NCUA to approve applications for issuers that otherwise are not subject to NCUA supervision.

[37] A Federal qualified payment stablecoin issuer includes (1) a nonbank entity, (2) an uninsured national bank, and (3) a Federal branch. FICUs and their subsidiaries would not qualify as Federal qualified payment stablecoin issuers.

[38] A State qualified payment stablecoin issuer is an entity that is: (A) legally established under the laws of a State and approved to issue payment stablecoins by a State payment stablecoin regulator; and (B) is not an uninsured national bank chartered by the OCC, a Federal branch, an IDI, or a subsidiary of a national bank, Federal branch, or IDI. FICUs and FICU subsidiaries, including CUSOs, therefore, would not qualify as a State qualified payment stablecoin issuer.

[39] 12 U.S.C. 5904.

out section 5.[40] Section 5(g) further requires that the NCUA issue rules necessary for the regulation of the issuance of Payment Stablecoins.[41]

As explained in more detail in the NCUA Licensing Proposal, the GENIUS Act does not allow FICUs to directly issue Payment Stablecoins and instead provides that they must be issued through FICU subsidiaries that receive an NCUA-PPSI license. The Board made certain decisions in proposing to implement the GENIUS Act's application and licensing requirements that it believes will simplify the process and reduce the costs for the credit union industry and the NCUA. The Board discusses this approach in more detail in the NCUA Licensing Proposal.

The NCUA Licensing Proposal determined that it is preferrable for FICU subsidiaries themselves to submit the required applications to be an NCUA-Licensed PPSI jointly with their FICU Parent Company(ies), as defined in the NCUA-Licensing Proposal, rather than having every single FICU investing in them submit an application. The Board's proposed approach would also require the applying FICU subsidiary, and any of its FICU Parent Companies and Principal Shareholders, to provide written certification that any filing or supporting material submitted to the NCUA contains no material misrepresentations or omissions. Further, as required by the GENIUS Act, all Directors and Officers of the applying FICU subsidiary, its FICU Parent Company(ies), and any of its Principal Shareholders would have to provide certain information so that the NCUA can evaluate their competence, experience, and integrity and ensure they do not have felony convictions prohibited by the GENIUS Act. Finally, the NCUA Licensing Proposal proposed limiting FICUs to investing in NCUA-Licensed PPSIs. The Board believes this limitation is consistent with the definition of FICU subsidiary in the GENIUS Act and should not pose a barrier to the credit union industry's ability to facilitate Payment Stablecoin services for their

[40] 12 U.S.C. 5904(a)(2).
[41] 12 U.S.C. 5904(g).

members.

Further information about the proposed regulations to govern the process for reviewing and granting NCUA-PPSI licenses can be found in the NCUA Licensing Proposal.

IV. The NCUA Standards Proposal

The NCUA is issuing this supplemental proposed rule governing the issuance of Payment Stablecoins and certain related activities by entities subject to the NCUA's jurisdiction to supplement the NCUA Licensing Proposal and substantially implement the NCUA's proposed regulatory regime for NCUA-Licensed PPSIs and FICUs.

The NCUA is proposing the following procedures and standards for NCUA-Licensed PPSIs. Each section of the proposed rule will be discussed separately. As noted, the NCUA is providing a high-level summary of portions of the NCUA Licensing Proposal to assist stakeholders as they review this NCUA Standards Proposal. Unless explicitly stated in this supplemental proposal, the NCUA is not reproposing or otherwise modifying those provisions proposed in the NCUA Licensing Proposal.

The NCUA also notes that, as discussed throughout the NCUA Licensing Proposal, the GENIUS Act frequently uses banking-specific terminology and standards. Given this reliance on banking-specific terminology and the importance of providing consistent regulatory terminology and standards across the various primary Federal payment stablecoin regulators, where possible, proposed part 706 would maintain consistency with the standards and terminology proposed by the other primary Federal payment stablecoin regulators.

A. § 706.1. Authority, Purpose, and Scope

The NCUA Licensing Proposal proposed § 706.1 to describe the authority, purpose, and scope of part 706. The NCUA Standards Proposal is not proposing changes to what was previously proposed, but is restating the explanation provided in the NCUA Licensing Proposal to assist stakeholders as they review this proposal. Proposed § 706.1 would state that the NCUA is issuing part 706 under the GENIUS Act. Section 706.1 would state that

part 706 applies to FICUs and all PPSIs with investment or loans from FICUs and sets forth such entities' requirements for an NCUA-issued license. Finally, § 706.1 would state that there is nothing in this part that shall be read to limit the authority of the NCUA to take action under provisions of law other than the GENIUS Act, including action to address unsafe or unsound practices or conditions, or violations of law or regulation, under section 206 of the FCU Act.

B. § 706.2. Definitions

Proposed § 706.2 would provide the definitions used throughout part 706.[42] It would state that, unless otherwise provided in part 706, the terms used in this part have the same meanings as set forth in 12 U.S.C. 1752 and 5901. It would also state that all accounting terms not otherwise defined in this part have meanings consistent with the commonly accepted meanings under United States generally accepted accounting principles (U.S. GAAP). Proposed § 706.2 would provide the following defined terms specific to part 706.

This NCUA Standards Proposal restates the definitions provided in the NCUA Licensing Proposal to assist commenters. Except where explicitly noted, the NCUA Standards Proposal does not modify the proposed definitions from the NCUA Licensing Proposal.

As discussed throughout the NCUA Licensing Proposal, the GENIUS Act frequently uses banking-specific terminology and standards. Given this reliance on banking-specific terminology and the importance of providing consistent regulatory terminology and standards across the various primary Federal payment stablecoin regulators, where possible, proposed part 706 would maintain consistency with the standards and terminology proposed by the other primary Federal payment stablecoin regulators. The GENIUS Act's reliance on banking-specific terminology also compels the NCUA to at times clarify the best meaning of

[42] The definitions in proposed § 706.2 describe only terms used in proposed part 706. These definitions do not interpret terms for purposes of any other statute or regulation and are not issued pursuant to section 3(d) of the GENIUS Act (12 U.S.C. 5902(d)).

credit union specific terminology in part 706.

The NCUA solicits stakeholder input as to the below definitions and specifically as to whether individual definitions appropriately balance consistent meaning across the primary Federal payment stablecoin regulators with needed differences to accommodate the credit union industry.

1. Affiliate

The NCUA is proposing to define the term "Affiliate" consistent with the definition proposed by the OCC in their Payment Stablecoin notice of proposed rulemaking published in the *Federal Register* on March 2nd (hereinafter, the "OCC Proposal"). The OCC proposal would define the term consistent with the definition in the Bank Holding Company Act, 12 U.S.C. 1841(k), but modified to use the defined term "Person" in place of the term "company."[43] Under the proposed rule, the term "Affiliate" would mean a Person that controls, is controlled by, or is under common Control with another person. The NCUA believes the proposed definition of Affiliate would include the appropriate individuals and entities that could be involved in Payment Stablecoin issuance. As articulated above, the NCUA also believes that it is important to, where possible, provide consistent regulatory standards across the various primary Federal payment stablecoin regulators.

2. Applying Issuer

As proposed in the NCUA Licensing Proposal, the term "Applying Issuer" would mean any entity applying to the NCUA for an NCUA-PPSI license. This term would be used throughout part 706 to generally refer to any entity that is applying for an NCUA-PPSI license. As is required in proposed § 706.103, an Applying Issuer must apply jointly with any Insured Credit Union Parent Company(ies), as defined in the NCUA Licensing Proposal.

3. Bank Secrecy Act

[43] While the proposed definition of "Affiliate" is consistent with the definition in the Bank Holding Company Act, the NCUA would retain interpretive authority with respect to this definition for purposes of proposed 12 CFR part 706.

The NCUA is proposing to define the term "Bank Secrecy Act" consistent with the definition provided in the GENIUS Act, 12 U.S.C. 5901(2). Under the proposal, the term "Bank Secrecy Act" would mean: (1) section 21 of the Federal Deposit Insurance Act (12 U.S.C. 1829b); (2) chapter 2 of title I of Public Law 91–508 (12 U.S.C. 1951 et seq.); and (3) subchapter II of chapter 53 of title 31, United States Code and notes thereto (31 U.S.C. 5311 et seq.). The proposal would add the phrase "and notes thereto" as a clarification.

4. Control

The NCUA is defining "Control" such that a Person would control another Person if: (1) the Person directly or indirectly or acting through one or more other Persons owns, controls, or has power to vote 25 percent or more of any class of voting securities of the other Person; (2) the Person controls in any manner the election of a majority of the Directors or trustees of the other Person; or (3) the NCUA determines, after notice and opportunity for hearing, that the Person directly or indirectly exercises a controlling influence over the management or policies of the other Person. Like the definition of "Affiliate," the proposed definition of "Control" is generally consistent with the Bank Holding Company Act.[44] The NCUA notes that § 706.111, as proposed in the NCUA Licensing Proposal, included certain provisions regarding changes in control of an NCUA-Licensed PPSI related to ownership interests of FICU Parent Companies. As discussed later in this NCUA Standards Proposal, the NCUA is proposing to change proposed § 706.111 to refer to changes in FICU Parent Companies rather than changes in control. This is to help clarify that NCUA-Licensed PPSIs obtaining investment from FICUs and the investing FICUs should refer to the standards for FICUs that are or would be Parent Companies as described in § 706.111 while NCUA-Licensed PPSIs obtaining investment from non-FICU investors and the non-FICU investors should refer to this definition of Control and § 706.205(m). This is not intended to create a

[44] While the proposed definition of Control is consistent with the definition in the Bank Holding Company Act, the NCUA would retain interpretive authority with respect to this definition for purposes of proposed 12 CFR part 706.

substantive change from the standards applicable to FICU Parent Companies initially proposed in the NCUA Licensing Proposal.

5. Customer

The NCUA is proposing to define the term "Customer" to mean a Person that purchases (through any consideration) the products or services of another Person. This term appears in a variety of different contexts in the proposed rule, so the NCUA has proposed a broad definition for the term. The definition for purposes of the proposed rule is not intended to affect any customer identification program or customer due diligence rules.

6. Digital Asset

The NCUA is proposing to define the term "Digital Asset" as provided in section 2(6) of the GENIUS Act.[45] Under the proposed rule, the term "Digital Asset" would mean any digital representation of value that is recorded on a cryptographically secured Distributed Ledger.

7. Director

As provided in the NCUA Licensing Proposal, proposed § 706.2 would define the term "Director" to mean an individual who serves on the board of directors of an Applying Issuer, a Parent Company of the Applying Issuer, or a Principal Shareholder of the Applying Issuer. Under the NCUA-Licensing Proposal, individuals meeting the definition of a Director will generally need to complete the NCUA's Biographical and Financial Report so that the NCUA can verify their competence, experience, and integrity, as is required by the GENIUS Act.[46] The Directors and proposed Directors of an Applying Issuer will also generally need to provide legible fingerprints for a biometric based criminal history search so that the NCUA can evaluate whether any of these individuals have been convicted of a felony offense involving insider trading, embezzlement, cybercrime, money laundering, financing of

[45] 12 U.S.C. 5901(6).
[46] 12 U.S.C. 5904(c)(3).

terrorism, or financial fraud as is required by the GENIUS Act.[47]

As part of this NCUA Standards Proposal, the NCUA is proposing to amend the definition as proposed in the NCUA Licensing Proposal to specifically include individuals who serve on the board of directors of an NCUA-Licensed PPSI and to exempt certain advisory directors. These are not intended to be substantive changes, but instead to make clear that (1) an individual that is a Director of an Applying Issuer remains covered by the term Director once the Appling Issuer becomes an NCUA-Licensed PPSI; and (2) the definition is not intended to cover advisory directors who do not have the authority to vote on matters before the board of directors or any committee of the board of directors and provide solely general policy advice to the board of directors or any committee. Additionally, it is worth noting that Directors of NCUA-Licensed PPSIs would be subject to a number of additional requirements imposed by the NCUA Standards Proposal, including those related to Insider and Affiliate transactions in proposed § 706.204(a)(6).

Finally, as noted above, the NCUA is also proposing to include language in the definition of Director exempting advisory directors who do not have the authority to vote on matters before the board of directors or any committee of the board of directors and provides solely general policy advice to the board of directors or any committee.

8. Distributed Ledger

The NCUA is proposing to define the term "Distributed Ledger" as provided in the GENIUS Act with certain technical edits.[48] The proposed rule would define the term "Distributed Ledger" to mean technology in which (1) data is shared across a network that creates a public digital ledger of verified transactions or information among network participants and (2) cryptography is used to link the data to maintain the integrity of the public ledger and execute other functions. The proposed definition reformats the

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[47] *See* 12 U.S.C. 5903(f).
[48] 12 U.S.C. 5901(8).

definition in the GENIUS Act by using numbering to distinguish between the two components of the definition. The formatting changes are technical and do not have a substantive effect on the definition.

9. Distributed Ledger Protocol

The NCUA is proposing to define the term "Distributed Ledger Protocol" as provided in the GENIUS Act.[49] The term "Distributed Ledger Protocol" would mean publicly available and accessible executable software deployed to a Distributed Ledger, including smart contracts or networks of smart contracts.

10. Eligible Financial Institution

The NCUA is proposing to define "Eligible Financial Institution" to mean (1) a Person that (a) is eligible to hold Reserve Assets in custody under section 10(a) of the GENIUS Act;[50] (b) complies with the applicable requirements in section 10(b), (c), and (d) of the GENIUS Act,[51] including with applicable implementing regulations issued by a relevant Federal payment stablecoin regulator as defined in 12 U.S.C. 5901(25), primary financial regulatory agency described in 12 U.S.C. 5301(12)(B) or (C), State bank supervisor, or State credit union supervisor; and (c), if applicable, enters into a custody agreement with an NCUA-Licensed PPSI documenting the Person's compliance with section 10(b), (c) and (d) of the Act as well as policies and procedures to ensure compliance; or (2) a Federal Reserve Bank.

The term "Eligible Financial Institution" is relevant to the Reserve Asset diversification and concentration requirements in proposed § 706.202(c) of the proposed rule. Under section 10(a) of the GENIUS Act, a Person may only engage in the business of providing custodial or safekeeping services for the Payment Stablecoin reserve, the Payment Stablecoins used as collateral, or the Private Keys used to issue Payment Stablecoins if the

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[49] 12 U.S.C. 5901(9).
[50] 12 U.S.C. 5909(a).
[51] 12 U.S.C. 5909(b)-(d).

Person (1) is subject to (A) supervision or regulation by a primary Federal payment stablecoin regulator or a primary financial regulatory agency described under subparagraph (B) or (C) of section 2(12) of the Dodd-Frank Wall Street Reform and Consumer Protection Act (12 U.S.C. 5301(12)); or (B) supervision by a State bank supervisor, as defined under section 3 of the FDI Act (12 U.S.C. 1813), or a State credit union supervisor, as defined under section 6003 of the Anti-Money Laundering Act of 2020 (31 U.S.C. 5311 note), and such State bank supervisor or State credit union supervisor makes available to the Federal Reserve such information as the Federal Reserve determines necessary and relevant to the categories of information under section 10(d) of the Act; and (2) complies with the requirements under section 10(b), unless such Person holds such property in accordance with similar requirements as required by a primary Federal payment stablecoin regulator, the Securities and Exchange Commission, or the Commodity Futures Trading Commission.

Eligible Financial Institutions would include IDIs regardless of whether the entities engaged in stablecoin activities or provided custody services to NCUA-Licensed PPSIs because these entities are subject to supervision or regulation by a primary Federal payment stablecoin regulator. Thus, for example, under proposed § 706.202(c) an NCUA-Licensed PPSI could deposit reserves in Share Accounts at a FICU regardless of whether the FICU acted as custodian for the NCUA-Licensed PPSI's other Reserve Assets.

To meet the proposed definition, a financial institution must also comply with the applicable requirements of section 10 of the Act,[52] and the relevant custody agreement must reflect compliance with section 10 as well as policies and procedures to ensure such compliance.[53] These criteria are intended to ensure compliance with section 10 of the Act and to encourage appropriate due diligence of entities that hold Reserve Assets for NCUA-Licensed PPSIs.

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[52] 12 U.S.C. 5909.

[53] As discussed above, to the extent that an Eligible Financial Institution does not engage in custody of covered assets, section 10 of the GENIUS Act (12 U.S.C. 5909) would not apply.

The NCUA recognizes that multiple agencies will regulate PPSIs and that multiple agencies regulate the entities that may permissibly custody Reserve Assets. The proposed rule would impose requirements on where and how NCUA-Licensed PPSIs may hold Reserve Assets and would also impose requirements on NCUA-regulated institutions that hold Reserve Assets on behalf of PPSIs, including PPSIs not regulated by the NCUA. Accordingly, there may be overlap between the requirements imposed by different regulators with separate requirements implementing section 10 of the GENIUS Act that govern how their regulated entities must handle Reserve Assets placed by other PPSIs. The NCUA invites comment on the best ways to manage potentially overlapping requirements. The proposed rule would require that an "Eligible Financial Institution" comply with the requirements in section 10(b), (c), and (d) of the GENIUS Act, including applicable implementing regulations. Accordingly, even if different types of Eligible Financial Institutions are subject to different regulations on the safe handling of Payment Stablecoin Reserve Assets, an NCUA-Licensed PPSI could still custody Reserve Assets at any entity that meets the requirements in the definition of "Eligible Financial Institution." Given the diverse set of entities that may permissibly hold Payment Stablecoin reserves, the proposed definition of "Eligible Financial Institution" would not necessarily require that Eligible Financial Institutions be subject to uniform regulations implementing the requirements in section 10(b), (c), and (d) of the GENIUS Act. The proposed rule would require an NCUA-Licensed PPSI to enter into a custody agreement with an Eligible Financial Institution, which would establish a baseline that the Eligible Financial Institution is adhering to the requirements in section 10(b), (c), and (d), along with any implementing regulations. In the absence of this requirement, Reserve Assets might be placed at a financial institution without the financial institution even purporting to comply with the requirements in section 10(b), (c), or (d), or possibly even knowing that its Customer's assets represent Payment Stablecoin reserves.

11. Fair Value

The NCUA is proposing to include a definition of the term "Fair Value" in the rule. As proposed, the term "Fair Value" would mean the fair value as determined under GAAP.[54] Fair value is used in proposed § 706.202 in describing proposed reserve requirements.

12. FDIC

The NCUA is proposing to define FDIC to mean the Federal Deposit Insurance Corporation. This accords with the definition of "Corporation" in section 2(5) of the GENIUS Act.[55] The NCUA has opted not to use the term "Corporation" to describe the FDIC because that term is used more broadly in the definition of Person, discussed below.

13. GAAP

The NCUA is proposing to include a definition of the term GAAP in the rule. The proposed rule would define the term "GAAP" to mean the generally accepted accounting principles as used in the United States. GAAP is used in the definition of Fair Value and proposed subparts B and D.

14. Immediate Family

The NCUA is proposing to define the term "Immediate Family" to mean the spouse of an individual, the individual's minor children, and any of the individual's children (including adults) residing in the individual's home. This term is relevant to the risk management standards concerning Insider and Affiliate transactions. It aligns with the definition in the OCC Proposal and is consistent with the definition in Regulation O.[56]

15. Insider

The NCUA is proposing to define the term "Insider" to mean: (1) an Officer or Director of an NCUA-Licensed PPSI; (2) any Parent Company, and the Officers and Directors of the Parent Company, of an NCUA-Licensed PPSI; (3) any Principal

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[54] See discussion of the definition of "GAAP," infra.
[55] 12 U.S.C. 5901(5).
[56] 12 CFR part 215.

Shareholder, and Officers and Directors of the Principal Shareholder, of an NCUA-Licensed PPSI; and (4) a Related Interest of or the Immediate Family of any of these Persons. This term is relevant to the risk management standards concerning Insider and Affiliate transactions. It aligns with the definition in the OCC Proposal, which was adapted from the definition in Regulation O,[57] while accounting for Parent Company FICUs and their Officers and Directors. It has been adapted to make direct reference to the Immediate Family of one of the covered groups of Officers, Directors, Parent Companies, and Principal Shareholders to mitigate the risk of an Insider engaging in inappropriate transactions to benefit Immediate Family members.

16. Insured Credit Union

The NCUA proposes to define the term "Insured Credit Union" consistent with the definition of the term in the GENIUS Act.[58] As proposed, the term "Insured Credit Union" would have the meaning given to that term in section 101 of the Federal Credit Union Act.[59]

17. Insured Depository Institution

The NCUA is proposing to define the term "Insured Depository Institution" consistent with the definition of the term in the GENIUS Act.[60] As proposed, the term "Insured Depository Institution" would mean an Insured Depository Institution, as defined in section 3 of the Federal Deposit Insurance Act (12 U.S.C. 1813) and an Insured Credit Union.

18. Issuing Group

As proposed in the NCUA Licensing Proposal, proposed § 706.2 would define the term "Issuing Group" to mean the Applying Issuer and Parent Company(ies) and the Officers, Directors, and Principal Shareholders, if applicable, of the Applying Issuer, its

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[57] *Id.*
[58] 12 U.S.C. 5901(14).
[59] 12 U.S.C. 1752.
[60] 12 U.S.C. 5901(15).

subsidiaries, and Parent Company(ies).

As part of this NCUA Standards Proposal, the NCUA is proposing to amend the definition as proposed in the NCUA Licensing Proposal to specifically include NCUA-Licensed PPSIs. This is not intended to be a substantive change, but instead to make clear that an Applying Issuer that becomes an NCUA-Licensed PPSI remains a member of the Issuing Group and is subject to the requirements proposed part 706 imposes on Issuing Groups.

19. Monetary Value

The NCUA is proposing to define the term "Monetary Value" as provided in the GENIUS Act.[61] The proposal would define "Monetary Value" to mean a National Currency or deposit (as defined in section 3 of the Federal Deposit Insurance Act (12 U.S.C. 1813)) denominated in a National Currency.

However, as noted throughout the NCUA's Licensing Proposal and this NCUA Standards Proposal, the GENIUS Act frequently relies on banking-specific terminology. The references to a "deposit" as defined by the FDI Act in the GENIUS Act's definitions of "Monetary Value"[62] and "Payment Stablecoin"[63] are an example of this. Despite these references to FDI Act "deposits," which do not explicitly cover "accounts,"[64] as defined by the FCU Act, or "shares" at FICUs (defined as "Share Accounts" in this proposal), the Board believes the GENIUS Act broadly contemplates treating deposits at banks and savings associations and funds in Share Accounts at FICUs interchangeably and is concerned that to do otherwise could potentially create interpretive and implementation issues.

More specifically, the GENIUS limits "Payment Stablecoins" to Digital Assets that the issuer must (1) "be obligated to convert, redeem, or repurchase for a fixed amount of

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[61] 12 U.S.C. 5901(17).
[62] *See* 12 U.S.C. 5901(17).
[63] *See* 12 U.S.C. 5901(22).
[64] *See* 12 U.S.C. 1752(5).

monetary value" and (2) "represent[] that such issuer will maintain, or create the reasonable expectation that it will maintain, a stable value relative to the value of a fixed amount of monetary value[.]"[65] The GENIUS Act generally defines "Monetary Value" to mean (1) a National Currency; or (2) a deposit (as defined by the FDI Act) denominated in a National Currency.[66] In relevant part, a National Currency is defined by the GENIUS Act to include Federal Reserve notes and Money standing to the credit of an account with a Federal Reserve Bank.[67] The Payment Stablecoin definition also clarifies that Digital Assets that are a National Currency or a deposit (as defined by the FDI Act), including a deposit recorded using Distributed Ledger technology, are not Payment Stablecoins.[68]

While the Payment Stablecoin and Monetary Value definitions do not explicitly address "accounts" or "shares" at FICUs (Share Accounts), the Board believes that an overall reading of the GENIUS Act warrants that funds in Share Accounts at FICUs have Monetary Value (1) for which an issuer is "obligated to convert, redeem, or repurchase" their Payment Stablecoins for; and (2) against which an issuer can utilize as "a fixed amount of monetary value." The GENIUS Act provides numerous instances demonstrating the intention that "deposits" at FDIC-insured banks and savings associations and "shares" at FICUs be treated the same, including: (1) parallel treatment of "demand deposits" and "insured shares" at all "insured depository institutions," which the Act defines to include both FDIC-insured banks and FICUs, as permissible reserves by which Payment Stablecoins can be backed;[69] (2) explicitly granting FDIC-insured banks and FICUs the power to accept Payment Stablecoin reserves as "cash on *deposit*" when providing custody services for PPSIs;[70] (3) explicit recognition that the GENIUS Act does not limit the authority of a bank or credit union to "accept[] or receiv[e] deposits or shares (in the case of a credit union), and issu[e] digital

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[65] *See* 12 U.S.C. 5901(22)(A)(ii)(I)-(II).
[66] 12 U.S.C. 5901(17)
[67] *See* 12 U.S.C. 5901(19)(A)-(B).
[68] *See* 12 U.S.C. 5901(22)(B)(i)-(ii).
[69] *See* 12 U.S.C. 5903(a)(1)(A)(ii).
[70] *See* 12 U.S.C. 5909(c)(2)(D).

assets that represent those deposits or shares";[71] (4) recognition that "[e]ntities regulated by the primary Federal payment stablecoin regulators [including FICUs] are authorized to engage in the Payment Stablecoin activities and investments contemplated by this Act, including acting as a principal or agent with respect to any Payment Stablecoin and payment of fees to facilitate customer transactions";[72] and (5) a parallel prohibition for misrepresentation of insured status of Payment Stablecoins by FDIC-insured banks and NCUA-insured credit unions.[73]

Given the GENIUS Act's clear intention that, despite the use of banking-specific terminology, Share Accounts at FICUs and deposits at banks are to be given parallel treatment, the NCUA is specifically seeking comment as to whether the NCUA should adopt a definition of the term "Deposit" and, if so, the proper definition. Should the parenthetical to the Federal Deposit Insurance Act definition of a "deposit" be dropped? Should a definition specifically include "deposits" as defined by the Federal Deposit Insurance Act and "accounts" as defined by the FCU Act (and defined as Share Accounts in this proposal)? Relatedly, the Board seeks comment as to whether the NCUA should provide an explicit interpretation in Part 706, the final rule's preamble, or other guidance that the definition of Monetary Value and/or Payment Stablecoin in the GENIUS Act expressly covers a Digital Asset for which an issuer has an obligation to redeem funds placed in a Share Account at a FICU? If so, how? For example, should the NCUA expressly interpret Monetary Value to include a broader conception of "deposits" not limited to the definition in section 3 of the Federal Deposit Insurance Act? Does the ubiquitous convertibility of funds in Share Accounts and bank deposits in the U.S. financial system bear on this question (e.g., is redemption in funds placed in a Share Account at a FICU functionally equivalent to redemption in bank deposits for purposes of the scope of a Payment Stablecoin)? What are

[71] *See* 12 U.S.C. 5915(a)(1).
[72] *See* 12 U.S.C. 5915(b).
[73] *See* 12 U.S.C. 5903(e).

the practical or evasion risks of possible interpretations? In practice, will FICU subsidiaries likely seek to issue Payment Stablecoins that are redeemable only in funds in Share Accounts, bank deposits, or both?

20. Money

Section 2(18) of the GENIUS Act defines "Money" to mean a medium of exchange currently authorized or adopted by a domestic or foreign government, including a monetary unit of account established by an intergovernmental organization or by agreement between two or more countries.[74] This definition is relevant to the definition of National Currency (discussed below) and certain Reserve Assets described in section 4(a)(1)(A)(i) and (iv) of the GENIUS Act.[75] Section 4(a)(1)(A)(i) refers to Money standing to the credit of an account with a Federal Reserve Bank. Section 4(a)(1)(A)(iv) refers to Money received under a repurchase agreement that meets certain requirements. Although the statutory definition of Money clearly includes Monetary Value, it may be unclear at any point in time whether other mediums of exchange have been authorized or adopted by a domestic or foreign government. Moreover, whether a medium of exchange meets this definition may change based on actions of foreign governments or intergovernmental organizations. While it may be relatively clear whether an asset is Money standing to the credit of an account with a Federal Reserve Bank, there could be ambiguity as to whether a particular asset is Money received under a repurchase agreement. Therefore, to promote clarity and uniformity for purposes of determining whether certain assets would qualify as Money under proposed part 706, the NCUA proposes that it would provide prior confirmation publicly that a medium of exchange (other than those defined as Monetary Value) meets the definition of "Money" under the GENIUS Act. Specifically, the NCUA proposes to define "Money" for the purposes of part 706 to mean Monetary Value and any other medium of exchange that the NCUA has

[74] 12 U.S.C. 5901(18).
[75] 12 U.S.C. 5903(a)(1)(A)(i) and (iv).

determined is currently authorized or adopted by a domestic or foreign government, including a monetary unit of account established by an intergovernmental organization or by agreement between two or more countries.

21. National Currency

The NCUA is proposing to define the term "National Currency" as provided in the GENIUS Act.[76] Under the proposed rule, the term "National Currency" would mean (1) a Federal Reserve note (as the term is used in the first undesignated paragraph of section 16 of the Federal Reserve Act (12 U.S.C. 411)); (2) Money standing to the credit of an account with a Federal Reserve Bank; (3) Money issued by a foreign central bank; or (4) Money issued by an intergovernmental organization pursuant to an agreement by two or more governments.

22. NCUA-Licensed Permitted Payment Stablecoin Issuer

As proposed in the NCUA's Licensing Proposal, proposed § 706.2 would define an NCUA-Licensed Permitted Payment Stablecoin Issuer to mean a Person formed in the United States that is a FICU subsidiary that has been approved and licensed by the NCUA under subpart A to issue Payment Stablecoins.

23. Nonpublic Personal Information

The NCUA is proposing to define the term "Nonpublic Personal Information" to mean information (1) provided by a Customer to an NCUA-Licensed PPSI to obtain a financial product or service, (2) about a Customer resulting from any transaction involving a financial product or service between the NCUA-Licensed PPSI and a Customer, or (3) otherwise obtained by the NCUA-Licensed PPSI in connection with providing a financial product or service to a Customer. The proposed definition does not include publicly available information, unless such publicly available information, when combined with other information, would reveal the identity of a Customer or would enable access to the

[76] 12 U.S.C. 5901(19).

Customer's account.

24. Officer

As proposed in the NCUA's Licensing Proposal, proposed § 706.2 would define the term "Officer" to mean the president, chief executive officer, chief operating officer, chief financial officer, chief technology officer, chief lending officer, chief investment officer, chief risk officer, Bank Secrecy Act officer, and any other individual the NCUA identifies in writing to the Issuing Group who exercises significant influence over, or participates in, major policy making decisions of the Issuing Group without regard to title, salary, or compensation. The term also includes employees of entities retained by an Issuing Group to perform such functions in lieu of directly hiring the individuals.

25. Outstanding Issuance Value

The NCUA is proposing to define the term "Outstanding Issuance Value" to mean the total consolidated par value of all of an NCUA-Licensed PPSI's Payment Stablecoins. This would include the combined total par value of different brands of Payment Stablecoin issued by the NCUA-Licensed PPSI (e.g., under a white label arrangement) to the extent that such an arrangement complies with proposed 12 CFR part 706. The proposed definition includes the defined term "Payment Stablecoin" and should be read consistent with that definition, discussed below. For purposes of calculating the Outstanding Issuance Value, the NCUA believes that a Digital Asset that is, or is designed to be, used as a means of payment or settlement but for which there is not yet an obligation to convert, redeem, or repurchase for a fixed amount of Monetary Value should not be included in the calculation. A Digital Asset minted (i.e., created on a blockchain) by an issuer to be a Payment Stablecoin would not be included in the calculation of Outstanding Issuance Value until the obligation to convert, redeem, or repurchase the Digital Asset for a fixed amount of Monetary Value is incurred.

Similarly, once an issuer permanently removes a Payment Stablecoin from circulation (e.g., burns the Payment Stablecoin) the Digital Asset would cease to be included in the

calculation of Outstanding Issuance Value. Payment Stablecoins for which holder access has been restricted pursuant to applicable law, regulation, or court order would remain Payment Stablecoins, as the issuer's obligation to convert, redeem, or repurchase for a fixed amount of Monetary Value continues and the associated reserves are maintained in segregated accounts pending resolution of the restriction. Likewise, if an issuer repurchased a Payment Stablecoin but did not burn the Payment Stablecoin, the stablecoin in the NCUA-Licensed PPSI's inventory would not be part of the issuer's Outstanding Issuance Value (but would become part of the Outstanding Issuance Value if the NCUA-Licensed PPSI subsequently put the Payment Stablecoin back into circulation). Therefore, the proposed definition of "Outstanding Issuance Value" only includes Payment Stablecoins for which the NCUA-Licensed PPSI is obligated to convert, redeem, or repurchase for a fixed amount of Monetary Value (generally the issued Payment Stablecoins in circulation).

The NCUA also considered whether the proposed "Outstanding Issuance Value" definition should include only those Payment Stablecoins issued by an NCUA-Licensed PPSI, or also the Payment Stablecoins issued by the issuer's non-consolidated Affiliates.[77] The NCUA determined that it was appropriate to limit the proposed definition to include only the Payment Stablecoins issued by an NCUA-Licensed PPSI (and consolidated subsidiaries). The NCUA believes that the proposed definition would scope in the appropriate NCUA-Licensed PPSIs to the relevant provisions regarding Reserve Assets,[78] the frequency of examinations,[79] required audits,[80] and minimum capital calculation[81] without being overly expansive and that it best aligns with the language in the statute. Notwithstanding the proposed definition of "Outstanding Issuance Value," non-consolidated Affiliates of an issuer that issue Payment Stablecoins would separately need to comply with

[77] As noted above, the definition of "Outstanding Issuance Value" includes the consolidated value of issued Payment Stablecoins.
[78] *See* proposed § 706.202.
[79] *See* proposed § 706.205.
[80] *See* id.
[81] See proposed subpart D.

the requirements of the GENIUS Act.

26. Parent Company

As proposed in the NCUA's Licensing Proposal, proposed § 706.2 would define the term "Parent Company." The GENIUS Act requires that applications for a PPSI license granted by a primary Federal payment stablecoin regulator be evaluated using specifically defined factors.[82] One of these factors requires the NCUA to evaluate the competency, experience, and integrity of the Officers and Directors of the Applying Issuer's Parent Company(ies).[83] Proposed § 706.2 would define the term Parent Company to specify when a FICU must sign onto an application and when a FICU's Officers and Directors should be evaluated as part of an Applying Issuer's licensure application. The term Parent Company would also be used to determine when a FICU's investment in an NCUA-Licensed PPSI requires prior notice as a change in control.

Proposed § 706.2 would define a Parent Company as an Insured Credit Union(s) that will own, control or hold the power to vote 10 percent or more of any class of voting securities, or has the ability to direct the management or policies, of a Permitted Payment Stablecoin Issuer. If no Insured Credit Union will own, control or hold the power to vote 10 percent or more of any class of voting securities, the Insured Credit Union with the largest percentage of voting securities in relation to all other Insured Credit Unions is considered the Parent Company." Under this definition, any FICU that owns 10 percent or more of a class of voting securities would be a Parent Company. Additionally, if no FICU owns 10 percent or more of a class of voting securities, then the FICU with the greatest percentage of a class of voting securities in relation to any other FICU is the Parent Company for purposes of an NCUA PPSI license. The definition would also provide that a FICU that has the ability to direct the management or policies of a PPSI would be considered a Parent Company. The Board believes it is important that the definition of Parent Company cover FICUs that have the power to direct the

[82] 12 U.S.C. 5904(b)-(c).
[83] 12 U.S.C. 5904(c)(3).

management or policies of a PPSI regardless of their ownership interests.

27. Payment Stablecoin

The NCUA is proposing to define the term "Payment Stablecoin" consistent with the definition of the term in the GENIUS Act, 12 U.S.C. 5901(22), with certain technical changes. Under the proposal, the term "Payment Stablecoin" would mean a Digital Asset (i) that is, or is designed to be, used as a means of payment or settlement; and (ii) the issuer of which (A) is obligated to convert, redeem, or repurchase for a fixed amount of Monetary Value, not including a Digital Asset denominated in a fixed amount of Monetary Value; and (B) represents that such issuer will maintain, or creates the reasonable expectation that it will maintain, a stable value relative to the value of a fixed amount of Monetary Value.[84] For a Digital Asset to be a Payment Stablecoin under proposed part 706, the issuer must be obligated to convert, redeem, or repurchase the Digital Asset for a fixed amount of Monetary Value.

The proposed definition also provides that a "Payment Stablecoin" does not include a Digital Asset that is a (i) National Currency; (ii) deposit (as defined in section 3 of the Federal Deposit Insurance Act (12 U.S.C. 1813)), including a deposit recorded using Distributed Ledger technology; or (iii) security, as defined in section 2 of the Securities Act of 1933 (15 U.S.C. 77b), section 3 of the Securities Exchange Act of 1934 (15 U.S.C. 78c), or section 2 of the Investment Company Act of 1940 (15 U.S.C. 80a–2).

The GENIUS Act's definition of "Payment Stablecoin" includes a parenthetical with the term "deposit" in (B)(2) limiting the scope of the term to a "deposit" as defined in section 3 of the FDI Act. However, as discussed in this preamble's proposed definition of the term "Monetary Value," the Board believes that an overall reading of the GENIUS Act makes clear the intention that, despite the use of banking-specific terminology, Share Accounts at

[84] The NCUA interprets the statutory language in 12 U.S.C. 5901(22) to mean that the PPSI would be obligated to meet redemption requests at par.

FICUs and deposits at banks are to be given parallel treatment. Further, the GENIUS Act also specifically states that "[n]othing in this Act may be construed to limit the authority of a Federal credit union [or] State credit union to engage in activities permissible pursuant to applicable State and Federal law, including— (1) accepting or receiving deposits or shares (in the case of a credit union), and issuing digital assets that represent those deposits or shares."[85] The GENIUS Act clearly contemplates shares (Share Accounts) represented by Digital Assets, but does not intend to limit the ability of FICUs to directly accept, receive, or issue Digital Assets that represent shares (Share Accounts). Conversely, the GENIUS Act does prohibit FICUs from directly issuing Payment Stablecoins. Given this clear delineation between Share Accounts/deposits represented by digital assets and Payment Stablecoins, the Board believes that in addition to excluding deposits recorded using Distributed Ledger technology from the GENIUS Act's definition of a Payment Stablecoin, shares (Share Accounts) recorded using Distributed Ledger technology are also not covered by the GENIUS Act's definition of a Payment Stablecoin.

The Board is specifically seeking comment as to whether the final rule should modify the text drawn from the GENIUS Act's definition to specifically exempt Share Accounts recorded using Distribution Ledger technology from the GENIUS Act's definition of a Payment Stablecoin. If so, how? Should the NCUA drop the parenthetical to the Federal Deposit Insurance Act definition of the a "deposit?" Should the NCUA adopt a definition of the term "Deposit" that drops the parenthetical to the Federal Deposit Insurance Act definition of a "deposit"? Should a definition specifically include "deposits" as defined by the Federal Deposit Insurance Act and "accounts" as defined by the FCU Act (and defined as Share Accounts in this proposal)? Relatedly, the Board seeks comment as to whether the NCUA should provide an explicit interpretation in Part 706, the final rule's preamble, or other guidance that the definition of Monetary Value and/or Payment Stablecoin in the

[85] *See* 12 U.S.C. 5915(a)(1).

GENIUS Act expressly covers a Digital Asset for which an issuer has an obligation to redeem funds placed in a Share Account at a FICU? If so, how?

The GENIUS Act's definition of "Payment Stablecoin" also contains language clarifying that "no bond, note, evidence of indebtedness, or investment contract that was issued by a permitted payment stablecoin issuer shall qualify as a security solely [because the issuer satisfies] the conditions in [paragraph (1) of the proposed "payment stablecoin" definition], consistent with section 17 of the Act." The GENIUS Act provides that this language was included "for the avoidance of doubt." The NCUA determined that it was not necessary to include this language in the proposed "Payment Stablecoin" definition because section 17 of the GENIUS Act includes amendments to the cited Federal statutes that clarify that Payment Stablecoins are not securities.

28. Person

The NCUA is proposing to define the term "Person" as the term is defined in the GENIUS Act, 12 U.S.C. 5901(24). As proposed, the term "Person" would mean an individual, partnership, company, corporation, association, trust, estate, cooperative organization, or other business entity, incorporated or unincorporated.

29. Principal Shareholder

As proposed in the NCUA's Licensing Proposal, proposed § 706.2 would define the term "Principal Shareholder." The GENIUS Act requires that applications for a PPSI license granted by a primary Federal payment stablecoin regulator be evaluated using specifically defined factors.[86] One of these factors requires the NCUA to evaluate the competency, experience, and integrity of the Officers and Directors of the Applying Issuer's Principal Shareholders.[87] Proposed § 706.2 would define a Principal Shareholder to mean a Person other than an Insured Credit Union that directly or indirectly or acting in concert with one or

[86] 12 U.S.C. 5904(b)–(c).
[87] 12 U.S.C. 5904(c)(3).

more Persons or companies, or together with members of their Immediate Family, will own, control, or hold the power to vote 10 percent or more of any class of voting securities. Under this definition, any non-FICU that owns 10 percent or more of a class of voting securities would be a Principal Shareholder. Proposed § 706.2 would include the defined term of Principal Shareholder to specify when a non-FICU's Officers and Directors should be evaluated as part of an Applying Issuer's licensure application. The proposed definition is derived from the FDIC's change of control regulations.[88] The intent of the definition is to capture only the non-FICUs that are most likely to have an ability to control or direct the management and policies of the PPSI. Under the proposed definition, if there is an Applying Issuer that is widely held by FICUs that also has non-FICU shareholders, then only the non-FICU shareholders with 10 percent or more of a class of voting securities would be considered Principal Shareholders. The Board believes the definition is the best interpretation of the term Principal Shareholders as used in the GENIUS Act and appropriately balances the NCUA's allocation of its resources with its statutory mandate under the GENIUS Act. While the GENIUS Act requires that the Board evaluate certain statutory factors related to the Officers and Directors of the Principal Shareholders, the Board does not believe it is practical or consistent with congressional intent for the NCUA to review the Officers and Directors of each investing shareholder. Requiring this level of review would disadvantage Applying Issuers seeking NCUA licenses and FICUs investing in them. It would also impose a prohibitive burden on the NCUA's resources, especially when considering the 120-day deadline the GENIUS Act imposes on the NCUA for rendering a decision on a substantially complete application. In summary, the Board believes it is prudent to only review Officers and Directors of an investing shareholder when the investing shareholder would have a material amount of control of the PPSI. The Board selected 10 percent as that is a common threshold used for determining a material amount of control under banking law.

[88] 12 CFR part 303, subpart E.

30. Private Key

The NCUA is proposing to define the term "Private Key" to mean the unique alphanumeric string that allows an individual to transfer a particular unit of a Digital Asset using a Distributed Ledger. This definition is intended to include shards of a Private Key.[89]

31. Publicly Available Information

The NCUA is proposing to define the term "Publicly Available Information" to mean any information that a Person has a reasonable basis to believe is lawfully made available to the general public from: (1) Federal, State, or local government records; (2) widely distributed media; (3) disclosures to the general public that are required to be made by Federal, State, or local law; or (4) a Distributed Ledger.[90]

32. Registered Public Accounting Firm

The NCUA is proposing to define the term "Registered Public Accounting Firm" as provided in the GENIUS Act.[91] Under the proposal, the term "Registered Public Accounting Firm" would mean a registered public accounting firm set forth in section 2 of the Sarbanes-Oxley Act of 2002 (15 U.S.C. 7201).

33. Related Interest

The NCUA is proposing to define the term "Related Interest" of a Person to mean (1) a company that is controlled by that Person; or (2) a political or campaign committee that is controlled by that Person or the funds or services of which will benefit that Person. This term is relevant to the risk management standards for Insider and Affiliate transactions. It aligns with the OCC Proposal and is derived from the definition in Regulation O.[92]

34. Reserve Asset

The NCUA is proposing to define the term "Reserve Asset" to mean an asset

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[89] Sharding refers to dividing a Private Key into distinct pieces for enhanced security.
[90] As noted above, the term "Distributed Ledger" is limited to publicly available and accessible ledgers.
[91] 12 U.S.C. 5901(26).
[92] 12 CFR part 215.

maintained by an NCUA-Licensed PPSI of a type enumerated in § 706.202(b). An NCUA-Licensed PPSI may maintain Reserve Assets as a custodian.

35. Share Account

The NCUA is proposing to define the term "Share Account" to have the same meaning as the term "account" in section 101 of the FCU Act (12 U.S.C. 1752(5).

36. State

The NCUA is proposing to define the term "State" as provided in the GENIUS Act, 12 U.S.C. 5901(28). Under the proposed rule, the term "State" would mean each of the several States of the United States, the District of Columbia and each territory of the United States.

37. Subsidiary of an Insured Credit Union

As discussed at length in the NCUA's Licensing Proposal, proposed § 706.2 would define the definition of Subsidiary of an Insured Credit Union, or FICU subsidiary, as defined in the GENIUS Act. This definition includes three separate prongs. Specifically, the GENIUS Act defines a "subsidiary of an insured credit union" to include the following:

> (A) an organization providing services to the insured credit union that are associated with the routine operations of credit unions, as described in section 1757(7)(I) of this title;
>
> (B) a credit union service organization, as such term is used under part 712 of title 12, Code of Federal Regulations, with respect to which the insured credit union has an ownership interest or to which the insured credit union has extended a loan; and
>
> (C) a subsidiary of a State chartered insured credit union authorized under State law.[93]

Each prong is a separate and distinct avenue to qualify as a FICU subsidiary for purposes of being a PPSI.

38. Trading Volume

The NCUA is proposing to define the term "Trading Volume" to mean the aggregate

[93] 12 U.S.C. 5901(33).

number of Payment Stablecoins issued by an NCUA-Licensed PPSI that were purchased or sold on exchanges during a specified period of time.

39. Request for Comment

The NCUA requests feedback on all aspects of the proposed rule, including:

Question 1: Are the definitions in the proposed rule appropriately scoped? How should they be improved?

Question 2: Given the GENIUS Act's frequent use of banking-specific terminology, has the proposed rule struck the appropriate balance of maintaining consistency with the standards and terminology used in the GENIUS Act and proposed by the other primary Federal payment stablecoin regulators while also reflecting the nuances of the credit union industry and its terminology? Has the proposed rule appropriately clarified the best meaning for banking and credit union specific terminology? Do the proposal's definitions of terms like "Share Account," "Insured Credit Union," and "Insured Depository Institution" enhance the clarity of Part 706? Are there ways that these and other terms could be better defined or utilized to strike the appropriate balance between consistency across regulatory regimes and clarity for those subject to the NCUA's regulations?

Question 3: Is the definition of "Control" sufficiently clear? If not, how should the NCUA further clarify the term?

Question 4: The term "Customer" is broadly defined to mean a Person that purchases (through any consideration) the products or services of another Person. Is the scope of this definition too broad? With respect to Customers of NCUA-Licensed PPSIs, should the definition expressly include only Persons with direct interactions with an NCUA-Licensed PPSI? Alternatively, should the definition include all downstream Payment Stablecoin holders (*i.e.,* not just Customers with direct interactions with the PPSI)? Please address any significant impact or burden the proposed definition or contemplated alternative definitions may have or add given

other requirements in the proposed rule, such as the Customer notification requirements in proposed § 706.204. Because the term is used in several different contexts throughout the proposed rule, should the definition of "Customer" be refined with respect to certain requirements (*e.g.,* Customer notification)?

Question 5: Are the terms "deposit" and "Share Account" sufficiently clear as used in the proposed rule? If not, how should they be clarified? Is their intersection with the terms "Monetary Value," "Money," and "Payment Stablecoin" sufficiently clear? If not, what can the NCUA do to provide further clarity? Would commenters prefer that the proposed rule specifically refer to both deposits and Share Accounts in these terms and throughout the proposed rule or would they prefer the NCUA adopt a defined term "Deposit" to cover both deposits as defined by the FDI Act and Share Accounts?

Question 6: Is the scope of the term "Digital Asset" sufficiently clear? If not, how should it be clarified?

Question 7: The proposed rule does not define the term "digital asset service provider." Is the scope of the term digital asset service provider under the statute sufficiently clear? If not, how should it be clarified? Are there specific activities that should be expressly excluded from digital asset service provider activities, consistent with the statutory definition? Should additional guidance on the exclusions from the definition of "digital asset service provider" or the meaning of "engaging in the business" of providing digital asset service provider activities be clarified? If so, how should the NCUA further clarify these terms? Should the NCUA clarify that only the provision of financial services that directly relate to Digital Asset issuance would result in an entity becoming a digital asset service provider?

Question 8: Is the term "Director" sufficiently clear? How should the NCUA further clarify the term?

Question 9: Is the term "Distributed Ledger" sufficiently clear? Should the term "public digital ledger" be further clarified? What additional clarifications would be helpful? Should certain permissioned or semi-permissioned digital ledgers be considered "public?" If so, how should the definition of "public" delineate between different types of permissioned or semi-permissioned blockchains?

Question 10: Is the definition of "Eligible Financial Institution" appropriately scoped? How could the term be further refined? Are there particular elements of the definition that should be excluded or should be addressed elsewhere in the proposed rule?

Question 11: Is the definition of "Money" appropriately scoped? Should the NCUA use the exact language of the statute, instead of using the proposed definition?

Question 12: Is the term "Nonpublic Personal Information" appropriately scoped? How could the term be further refined or clarified?

Question 13: The term "Outstanding Issuance Value" refers to the total consolidated par value of all of an issuer's Payment Stablecoins. Should the definition also include the par value of non-consolidated Affiliates? If so, what changes should be made to the Reserve Asset requirements to ensure 1:1 backing across all Affiliated entities?

Question 14: Is the term "Payment Stablecoin" sufficiently clear? If not, how should the definition be amended to provide additional clarity as to whether a particular stablecoin is a "Payment Stablecoin"? Please describe the types of stablecoins that the NCUA should clarify do not meet the definition of a "Payment Stablecoin" and therefore would be outside the scope of the proposed rule. Should there be additional clarity around what it means that a Payment Stablecoin is a Digital Asset "that is, or is designed to be, used as a means of payment or settlement?" For example, are there certain settlement scenarios that the NCUA should clarify are not "designed to be, used as a means of payment or settlement?"

Question 15: Is the exclusion of a Digital Asset that "is a deposit, including a deposit recorded using Distributed Ledger technology" from the definition of "Payment Stablecoin" sufficiently clear? Should the NCUA explicitly state in Part 706 that Share Accounts at FICUs, including Share Accounts recorded using Distributed Ledger technology are excluded from the definition of "Payment Stablecoin?" Should the NCUA clarify which tokenized products this exclusion may apply to?

Question 16: Is the term "NCUA-Licensed Permitted Payment Stablecoin Issuer" sufficiently clear? How should the definition be amended to provide additional clarity as to whether a particular entity issues a Payment Stablecoin and is subject to the requirements of the GENIUS Act? Should the more generic term "Permitted Payment Stablecoin Issuer" be used instead? If so, why? If not, why not?

Question 17: Is the term "Person" sufficiently clear? Should the NCUA further clarify the definition, including with respect to the meaning of "association" or other components of the definition?

Question 18: Is the term "Private Key" sufficiently clear? How could the term be further clarified? Should the NCUA define the term to mean the unique alphanumeric sequence that allows an individual to prove ownership of an account on a Distributed Ledger, including for the purpose of transferring a particular unit of a Digital Asset?

Question 19: Should the definition of "Principal Shareholder" or any other definitions explicitly incorporate governance instruments other than securities providing voting rights with respect to the activities of the issuer? In particular, are there governance instruments that may not qualify as securities that the NCUA should incorporate or instruments common to partnerships that the NCUA should consider incorporating?

Question 20: Is the term "senior management" as used in proposed part 706 sufficiently clear? Should the NCUA define the term, for example, to include all or a select subset of Officers?

Question 21: The GENIUS Act does not define "payment stablecoin holder." Should the NCUA define the term? If so, should the NCUA define the term to mean the Person that beneficially owns the Payment Stablecoin? Should the NCUA instead define the term based on possession via Digital Wallets or control of cryptographic keys? What considerations relating to custody should the NCUA bear in mind if it chooses to define the term? What interactions with other requirements in the proposed rule should the NCUA consider if it chooses to define the term?

Question 22: Should the NCUA refine the definition of Trading Volume? Should the term be limited to trades that occur on exchanges? Should it include transactions that occur outside of an exchange? Should the NCUA define "exchange" for purposes of this definition? If so, should the NCUA define it to mean a Person engaged in the business of making a market in Digital Assets (including Payment Stablecoins)? Should any definition include decentralized exchanges? What impediments are there to PPSIs collecting data concerning Trading Volume?

C. § 706.2. Severability

Proposed § 706.3 would provide that the provisions of this proposed part 706 are separate and severable from one another. If any provision is stayed or determined to be invalid, it is the NCUA's intention that the remaining provisions shall continue in effect. If a provision of the rule were found to be invalid, the NCUA anticipates that it would evaluate whether any re-proposal of the rule is appropriate. The NCUA is proposing to include the severability clause to ensure that, in the event any particular provision of the proposed rule is held to be invalid, the remainder of the rule would continue in effect, providing clarity for market participants on how to comply with the NCUA's regulations implementing the GENIUS Act pending any re-proposal.

The NCUA generally intends all of its rulemakings to be severable to the extent portions of the rule are determined to be invalid regardless of the presence of a severability clause. The NCUA is proposing to include an explicit severability clause to this rulemaking given the novelty and scope of the GENIUS Act and the importance of ensuring as much certainty as possible for the regulatory framework for Payment Stablecoins.

D. Subpart B—NCUA-Licensed Permitted Payment Stablecoin Issuers

1. § 706.201. Activities

a. Permitted Activities

Section 4(a)(7)(A) of the GENIUS Act sets forth the list of activities in which a PPSI may engage.[94] Additionally, section 16(b) of the GENIUS Act outlines certain additional activities and investments in which PPSIs may engage.[95]

Consistent with the statute, the NCUA is proposing to mirror the permitted activities from section 4(a)(7)(A) of the GENIUS Act in proposed § 706.201(a)(1) through (4), which include: (1) issuing Payment Stablecoins; (2) redeeming Payment Stablecoins; (3) managing reserves related to the issuance or redemption of Payment Stablecoins, including purchasing, selling, and holding Reserve Assets or providing custodial services for reserve assets, consistent with applicable State and Federal law; and (4) providing custodial or safekeeping services for Payment Stablecoins, required reserves, or Private Keys of Payment Stablecoins consistent with the GENIUS Act, as implemented in proposed subpart C.[96] Additionally, proposed § 706.201(a)(8) provides that an NCUA-Licensed PPSI may undertake any other activities that directly support any of the activities in proposed § 706.201(a)(1) through (4), which is explicitly provided for in section 4(a)(7)(A)(v) of the GENIUS Act.[97] One such example of an activity that

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[94] 12 U.S.C. 5903(a)(7)(A).
[95] 12 U.S.C. 5915(b).
[96] 12 U.S.C. 5903(a)(7)(A).
[97] 12 U.S.C. 5903(a)(7)(A)(v).

would qualify under proposed § 706.201(a)(8) because it directly supports both issuance and redemption of Payment Stablecoins would be the NCUA-Licensed PPSI's holding of non-Payment Stablecoin crypto-assets as principal necessary for testing a Distributed Ledger, whether internally developed or acquired from a third-party.[98] Such an activity may be necessary to ensure that the NCUA-Licensed PPSI may operate safely and effectively on a Distributed Ledger. To the extent that NCUA-Licensed PPSIs are unclear about whether an activity qualifies as activity that directly supports the activities in proposed § 706.201 (a)(1) through (a)(4), the NCUA encourages issuers to ask the NCUA directly whether an activity is permissible. The NCUA is seeking comment on whether there should be a more formal process for clarifications around permissibility, including whether the NCUA should provide additional clarity to the public through long-established channels such as Letters to Credit Unions, published frequently asked questions, or other means.

In addition to the activities outlined in section 4(a)(7) of the GENIUS Act, for the sake of clarification, proposed § 706.201(a)(5) provides that NCUA-Licensed PPSIs may assess fees that are associated with the purchasing or redeeming of Payment Stablecoins.[99] This power is inherent in the activities described above and is explicitly recognized in section 4(a)(1)(B)(ii) of the Act.[100]

The NCUA also proposes to include the permitted activities outlined in section 16(b) of the GENIUS Act,[101] namely acting as principal or agent with respect to any Payment Stablecoin and paying fees to facilitate customer transactions.[102] The NCUA notes that the language in

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[98] Separate from NCUA-Licensed PPSIs conducting this activity to support their permissible Payment Stablecoin activities, the NCUA believes that the holding of crypto-assets as principal necessary to support other permissible activities is a permissible activity for FCUs. FISCUs must look to State law to determine the permissibility of such activities.

[99] 12 U.S.C. 5903(a)(7).

[100] 12 U.S.C. 5903(a)(1)(B)(ii).

[101] 12 U.S.C. 5915(b).

[102] Section 16(b) of the Act provides in part that "Entities regulated by the primary Federal payment stablecoin regulators are authorized to engage in the payment stablecoin activities and investments contemplated by this Act, including acting as a principal or agent with respect to any payment stablecoin and payment of fees to facilitate customer transactions." 12 U.S.C. 5915(b). The activities authorized under section 16(b) include, for example, acting as an agent for a Customer with respect to the redemption of a Payment Stablecoin issued by a third party.

section 16(b) of the Act is limited by the clause that provides that entities regulated by the primary Federal payment stablecoin regulators are "authorized to engage in the payment stablecoin activities and investments contemplated by this Act…."[103] Accordingly, "acting as principal or agent with respect to any Payment Stablecoin" is permissible within the limited set of authorities otherwise prescribed by the GENIUS Act rather than, for example, any activity that may be conducted as principal or agent (*i.e.,* any activity involving a Payment Stablecoin). Therefore, proposed § 706.201(a)(6) would allow NCUA-Licensed PPSIs to hold and transact in Payment Stablecoins as principal or agent. Payment Stablecoins are not, however, a permitted Reserve Asset in proposed § 706.202.[104] To the extent an NCUA-Licensed PPSI is a "digital asset service provider," as defined section 2(7) of the GENIUS Act,[105] the issuer must also comply with the prohibition outlined in section 3(b)(2) of the GENIUS Act,[106] providing that it is unlawful for any digital asset service provider to offer, sell, or otherwise make available in the United States a Payment Stablecoin issued by a foreign payment stablecoin issuer, unless certain conditions are met.

Consistent with section 16(b) of the GENIUS Act, proposed § 706.201(a)(7) would allow NCUA-Licensed PPSIs to pay fees to facilitate Customer transactions (*e.g.,* network or "gas" fees). If an issuer's Payment Stablecoin operates on a blockchain that assesses transaction fees, then the issuer may choose to pay transaction fees on behalf of the Customer. The NCUA recognizes that, if an issuer is paying transaction fees on certain Distributed Ledgers, the issuer may have to hold non-Payment Stablecoin crypto-assets to facilitate the payment of these transaction fees. Consistent with the GENIUS Act, such crypto-assets are not permitted Reserve Assets in proposed § 706.202.

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[103] 12 U.S.C. 5915(b).
[104] *See* 12 U.S.C. 5903(a)(1) (setting forth permissible Reserve Assets).
[105] 12 U.S.C. 5901(7).
[106] 12 U.S.C. 5902(b)(2).

Proposed § 706.201(b) incorporates language from section 16(a) of the GENIUS Act and emphasizes that nothing in proposed § 706.201(a) may be construed to limit the authority of an Insured Credit Union to engage in activities permissible pursuant to applicable State and Federal law.[107]

Beyond the core activities and those that directly support those activities, section 4(a)(7)(B) of the GENIUS Act provides a rule of construction such that none of a PPSI's activities discussed above (*i.e.*, issuance, redemption, managing reserve assets, limited custody, *etc*.) are to be construed as a limitation on certain incidental activities or Digital Asset service provider activities if the activities are authorized by the NCUA.[108] Digital Asset service provider activities encompass: (1) exchanging Digital Assets for Monetary Value; (2) exchanging Digital Assets for other Digital Assets; (3) transferring Digital Assets to a third party; (4) acting as a Digital Asset custodian; and (5) participating in financial services relating to Digital Asset issuance.[109] The NCUA is intending to adhere to the GENIUS Act's rule of construction and would authorize additional activities as appropriate.

The NCUA's authority to approve these activities is limited to those activities specified by the GENIUS Act that are consistent with all other Federal and State laws, and provided that in any insolvency proceedings described under section 11 of the GENIUS Act,[110] the activities would not jeopardize the claims of Payment Stablecoin holders, which would rank senior to claims of non-Payment Stablecoin creditors.[111] The NCUA seeks comment on how to implement section 4(a)(7)(B) of the GENIUS Act and whether it should serve as an independent grant of authority or whether it must be consistent with a grant of authority provided from another Federal or State law.[112]

b. Prohibited Activities

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[107] 12 U.S.C. 5915(a)
[108] 12 U.S.C. 5903(a)(7)(B).
[109] 12 U.S.C. 5901(7)(A).
[110] 12 U.S.C. 5911.
[111] *See* 12 U.S.C. 5903(a)(7)(B).
[112] *Id.*

The GENIUS Act also provides for certain prohibitions for PPSIs, including the prohibition on rehypothecation in section 4(a)(2),[113] the prohibition on the use of deceptive names in section 4(a)(9),[114] the prohibition against misrepresenting insured status in section 4(e),[115] and the prohibition on paying interest or yield in section 4(a)(11).[116]

In proposed § 706.201(c)(1), the NCUA imports the prohibition on the use of a deceptive name from section 4(a)(9) of the GENIUS Act.[117] This provision prohibits an NCUA-Licensed PPSI from using any combination of terms relating to the United States Government, including "United States," "United States Government," and "USG," in the name of the Payment Stablecoin. This prohibition does not apply to abbreviations relating directly to the currency to which the Payment Stablecoin is pegged, such as "USD."

Consistent with section 4(a)(9) of the GENIUS Act,[118] proposed § 706.201(c)(2) would prohibit NCUA-Licensed PPSIs from marketing a Payment Stablecoin in such a way that a reasonable person would perceive the Payment Stablecoin to be legal tender as described in 31 U.S.C. 5103, issued by the United States, or guaranteed or approved by the Government of the United States. The NCUA recognizes that NCUA-Licensed PPSIs may want to market themselves as PPSIs under the GENIUS Act. There is no prohibition against issuers marketing themselves in this manner, so long as they do not run afoul of the prohibitions outlined in proposed § 706.201(c)(1) and (2), including the prohibition against marketing a Payment Stablecoin in such a way that a reasonable person would perceive the Payment Stablecoin to be guaranteed, issued, or approved by the United States. The NCUA notes that misrepresentations by an NCUA-Licensed PPSI cannot be cured by a general disclaimer and that representations and disclosures should be clear to permitted Payment Stablecoin holders and Customers.

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[113] 12 U.S.C. 5903(a)(2).
[114] 12 U.S.C. 5903(a)(9).
[115] 12 U.S.C. 5903(e).
[116] 12 U.S.C. 5903(a)(11).
[117] 12 U.S.C. 5903(a)(9).
[118] 12 U.S.C. 5903(a)(9).

Consistent with section 4(e) of the GENIUS Act,[119] proposed § 706.201(c)(3) would provide that an NCUA-Licensed PPSI may not directly or through implication represent 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.

Consistent with section 4(a)(11) of the GENIUS Act,[120] proposed § 706.201(c)(4) provides that NCUA-Licensed PPSIs must not pay 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. The NCUA understands that issuers could attempt to make prohibited payments of interest or yield to Payment Stablecoins holders through arrangements with third parties. Moreover, there likely will be a large and changing variety of arrangements with third parties in which issuers could achieve the payment of yield to Payment Stablecoin holders. It would not be possible to identify in detail all, or even most, of the potential arrangements between NCUA-Licensed PPSIs and third parties that the NCUA may prohibit under section 4(a)(11) of the GENIUS Act and the NCUA's rulemaking authority under section 4(h) of the GENIUS Act,[121] particularly as such arrangements may evolve over time. On the other hand, a rule with only a general prohibition on the payment of yield could create uncertainty within the Payment Stablecoin market.

To balance these interests, the NCUA is proposing to include a presumption in paragraph (c)(4)(i) that certain types of arrangements with certain types of Persons would be prohibited payments of yield or interest by the issuer. Specifically, the NCUA would presume that an NCUA-Licensed PPSI is 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 if: (A) the NCUA-Licensed PPSI has a contract,

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[119] 12 U.S.C. 5903(e).
[120] 12 U.S.C. 5903(a)(11).
[121] Section 4(h) of the GENIUS Act provides that the NCUA and other stablecoin regulators may issue regulations to "carry out the requirements of this section, including to establish conditions, and to *prevent evasion thereof*."12 U.S.C. 5903(h) (emphasis added).

agreement, or other arrangement with an Affiliate or a related third party to pay interest or yield to the Affiliate or related third party; and (B) the Affiliate[122] or related third party (or Affiliate of such related third party) has a contract, agreement, or other arrangement to pay interest or yield (whether in cash, tokens, or other consideration) to a holder of any Payment Stablecoin issued by the NCUA-Licensed PPSI solely in connection with the holding, use, or retention of such Payment Stablecoin. To the extent that the Person, or an Affiliate of the Person with whom the NCUA-Licensed PPSI has a contract, agreement, or other arrangement to pay interest or yield is a related third party of the NCUA-Licensed PPSI because the NCUA-Licensed PPSI issues Payment Stablecoins on the related third party's behalf or under the related third party's branding, the arrangement between the related third party and the holder of the Payment Stablecoin would consider the holder of the Payment Stablecoin to be the holder of the Payment Stablecoin issued by the NCUA-Licensed PPSI on the related third party's behalf or under the related third party's branding. That is to say, with respect to a white-label relationship, the presumption would be triggered only to the extent the Payment Stablecoin holder is a holder of the related third party's white-labeled stablecoin (as opposed to other Payment Stablecoins issued by the NCUA-Licensed PPSI).

Related third parties would be defined to include any Person paying interest or yield to Payment Stablecoin holders as a service (*i.e.,* on behalf of the NCUA-Licensed PPSI) and any Person that the issuer issues Payment Stablecoins on behalf or under the branding of (*i.e.,* persons that have entered white-label relationship with the issuer). The NCUA believes that the close nexus to the issuer's payments and payments to the Payment Stablecoin holder as well as the close contractual or control relationship between the issuer and the other party would make it highly likely that the issuer's payments of yield or interest would be made to the holder through an intermediary or an attempt the evade the GENIUS Act's prohibition on interest and yield

[122] A Person would not be included within this second prong solely because the Person is an Affiliate of an Affiliate of the issuer.

payments. Nonetheless, the NCUA would permit the issuer to rebut the presumption given the issuer provides sufficient evidence to the contrary. Specifically, an NCUA-Licensed PPSI may rebut the presumption by submitting written materials that, in the NCUA's judgment, demonstrate that the contract, agreement, or other arrangement is not prohibited under paragraph (c)(4) and is not an attempt to evade the prohibition.

Other arrangements that are not captured by the presumption may also violate the statutory prohibition or constitute an evasion thereof. The NCUA would assess those arrangements on a case-by-case basis but does not believe that it is necessary to include other arrangements within the rebuttable presumption at this time. The prohibition is not intended to prevent a merchant from independently offering a discount to a Payment Stablecoin holder for using Payment Stablecoins. The prohibition is also not intended to prevent an NCUA-Licensed PPSI from sharing in the profits derived from the Payment Stablecoin with a non-Affiliate partner in a white-label arrangement.

In proposed § 706.201(c)(5), the NCUA proposes to include the language from section 4(a)(2) of the GENIUS Act[123] that prohibits PPSIs from pledging, rehypothecating, or reusing any Reserve Assets required under section 4(a)(1),[124] except for the purposes listed in section 4(a)(2). Thus, consistent with the statute, an NCUA-Licensed PPSI may not pledge, rehypothecate, or re-use any Reserve Assets, either directly or indirectly (*e.g.,* through a third-party custodian of the Reserve Assets), except for the purpose of: (i) satisfying margin obligations in connection with investments in permitted reserves under proposed § 706.202(b)(4) or (5); (ii) satisfying obligations associated with the use, receipt, or provision of standard custodial services;[125] or (iii) creating liquidity to meet reasonable expectations of requests to redeem Payment Stablecoins, such that reserves in the form of Treasury bills with a maturity of

[123] 12 U.S.C. 5903(a)(2).
[124] 12 U.S.C. 5903(a)(1).
[125] The NCUA interprets this exception, codified in 12 U.S.C. 5903(a)(2)(B), as being related solely to the purposes specified in 12 U.S.C. 5909(c)(2)(B).

93 days or less may be sold as purchased securities in repurchase agreements,[126] provided that either: (A) the repurchase agreements are cleared by a clearing agency registered with the Securities and Exchange Commission; or (B) the NCUA-Licensed PPSI receives prior approval from the NCUA. By including the phrase "directly or indirectly" in the prohibition, it is clear that Congress intended that a custodian that holds the reserves on behalf of a PPSI also may not pledge, rehypothecate or reuse any of the Reserve Assets, other than with respect to the limited exceptions discussed in proposed § 706.201(c)(5). To the extent that a custodian holding the Payment Stablecoin reserves were allowed to bypass this prohibition, it would undermine the relatively safe nature of the Reserve Assets and the confidence that Payment Stablecoin holders have that the Payment Stablecoin will hold its peg.

The NCUA will deem any repurchase agreement approved under this section and section 4(a)(2)(C) of the GENIUS Act, provided that the Treasury bills sold as purchased securities have a maturity of 93 days or less, consistent with the requirement that Treasury bills held as Reserve Assets must have a maturity of 93 days or less, and the liquidity obtained through repurchase borrowings is not being obtained solely for purposes other than meeting redemption requests or compliance with the requirements of this proposed rule. The NCUA believes that providing this prior approval by rule will enhance the ability of NCUA-Licensed PPSIs to obtain liquidity quickly (through outright sales or repurchase agreements) and thereby facilitate the timely redemption of Payment Stablecoins. It is clear from section 4(a)(1)(A) of the Act that PPSIs may maintain identifiable reserves comprising of Money received under certain repurchase agreements.[127] It would frustrate section 4(a)(1)(A)(iv)'s clear permission to maintain such Reserve Assets if PPSIs could only engage in repurchase borrowing transactions upon the

[126] Section 4(a)(2)(C) of the Act (12 U.S.C. 5903(a)(2)(C)) states that reserves in the form of Treasury bills may be sold as purchased securities for repurchase agreements with a maturity of 93 days or less if certain conditions are met. The NCUA proposes to clarify, consistent with section 4(a)(1)(iv) of the Act (12 U.S.C. 5903(a)(1)(iv)), that the Treasury bills sold under the repurchase agreement must have a maturity of 93 days or less. Consistent with this clarification and the NCUA's proposed approval of repurchase agreements under section 4(a)(2)(C) of the Act, discussed below, the maturity of the repurchase agreement would be overnight.

[127] 12 U.S.C. 5903(a)(1)(A).

completion of cumbersome procedures and one-off supervisory approvals. The ability to obtain immediate liquidity through repurchase borrowings is useful and supplements a PPSI's ability to access immediate liquidity via other means (for example, the maintenance of deposits and Share Accounts at IDIs or actual sales of securities). The prohibition on rehypothecation in proposed § 706.201(c)(5) would, consistent with section 4(a)(2)(C) of the GENIUS Act, prohibit rehypothecation except for the purpose of creating liquidity to meet reasonable expectations of requests for redemption. However, given the fungibility of Money, the NCUA will not scrutinize the exact uses to which repurchase borrowing proceeds are put. The limited circumstances in which the NCUA would not consider rehypothecation permissible would be if repurchase borrowings are obtained solely for some purpose other than obtaining liquidity to meet redemption requests or compliance with the rule—for example, if repurchase proceeds are to be used solely for paying dividends to a PPSI (*i.e.,* removing excess Reserve Assets above the required minimum).

Section 4(h)(1) of the GENIUS Act provides that the NCUA may issue regulations to "carry out the requirements of this section . . . and to prevent evasion thereof ."[128] In proposed § 706.201(c)(6), consistent with this statutory authority, the NCUA proposes language that provides that an NCUA-Licensed PPSI must not engage in any activity that the NCUA determines is an evasion of the requirements of section 4 of the GENIUS Act[129] or Part 706.

In proposed §706.201(b)(7), the NCUA is proposing to prohibit an NCUA-Licensed PPSI from providing credit to its Customers to purchase Payment Stablecoins. The NCUA interprets the GENIUS Act's requirements that a PPSI maintain Reserve Assets consisting of a narrow set of highly liquid assets and that a PPSI engage in a narrow set of activities to be crucial in ensuring a PPSI is able to satisfy redemption requests. If a PPSI lends funds to Customers to enable Customers to purchase Payment Stablecoins, or were to otherwise issue Payment

[128] 12 U.S.C. 5903(h)(1).
[129] 12 U.S.C. 5903.

Stablecoins to Customers on credit extended by the PPSI, the PPSI would then, in effect, need to access separate funding to acquire and maintain identifiable Reserve Assets to back the Payment Stablecoins issued on credit. This could result in a highly leveraged balance in which the Reserve Assets do not provide the intended resiliency. The NCUA seeks comment on whether this is an appropriate prohibition, and whether other alternatives would better achieve the statute's objectives.

The NCUA has considered and is requesting comment on whether to prohibit an NCUA-Licensed PPSI from issuing more than one brand of Payment Stablecoin (*i.e.,* more than one set of Payment Stablecoins marketed under the same name). The NCUA recognizes that there are advantages and disadvantages associated with permitting an NCUA-Licensed PPSI to issue multiple brands of Payment Stablecoins that may be co-branded with a named partner in a white-label arrangement. These arrangements can allow parties to leverage the experience and expertise of an NCUA-Licensed PPSI and facilitate a broader range of Payment Stablecoins in the market. However, they may also foster uncertainty about Reserve Assets and encourage contagion and run risk among brands of Payment Stablecoins, including but not limited to brands issued by one issuer. One possibility that the NCUA has considered and is requesting comment on is to restrict each NCUA-Licensed PPSI to issuing only one brand of Payment Stablecoin but to streamline the process for approving applications to become an NCUA-Licensed PPSI if an Affiliate has already been approved. Under this approach, multiple NCUA-Licensed PPSIs could share certain services and back-office functions with each other and might operate under a common risk management framework, but each issuer would be legally separate. This approach would allow an entity to leverage its experience and expertise but may provide more certainty with respect to the rights of Payment Stablecoin holders in the event that an NCUA-Licensed PPSI becomes insolvent.

The NCUA has also considered and is requesting comment on whether to include a provision explicitly prohibiting an NCUA-Licensed PPSI from engaging in unsafe or unsound

practices. Pursuant to section 6(a)(3) of the GENIUS Act,[130] the NCUA has the ability to examine NCUA-Licensed PPSIs for risks that may pose a threat to safety and soundness. Further, section 5(a)(1)(B) of the GENIUS Act requires the NCUA to "establish a process and framework for the licensing, regulation, examination, and supervision of [PPSIs] that prioritizes the safety and soundness of such entities."[131] It follows that NCUA-Licensed PPSIs should not be allowed to engage in practices that are unsafe or unsound. Explicitly prohibiting such activities may help the NCUA to address practices that could undermine public confidence in PPSIs and the financial system more generally.

c. Request for Comment

The NCUA requests feedback on all aspects of the proposed rule, including:

Question 23: Are there activities not contemplated in proposed § 706.201 that PPSIs must be able to engage in for purposes of the GENIUS Act? If so, please describe them and any appropriate limits for these additional activities.

Question 24: Should the NCUA clarify that a PPSI may retain an asset manager under a separately managed account under proposed § 706.201(a)(8)?

Question 25: Are there other limits or conditions the NCUA should consider with respect to PPSIs acting as principal or agent with respect to any Payment Stablecoin? Should the NCUA specify the activities contemplated under the GENIUS Act for which a PPSI may act as principal or agent in Payment Stablecoins under section 16(b) of the Act?[132]

Question 26: Do PPSIs need to hold crypto-assets other than Payment Stablecoins for other purposes beyond paying transaction fees or testing a Distributed Ledger? If so, under what circumstances would a PPSI need to hold such assets?

Question 27: Should the final rule include specific provisions addressing an issuer's holding of non-Payment Stablecoin crypto-assets to pay transaction fees, such as limitations on

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[130] 12 U.S.C. 5905(a)(3).
[131] 12 U.S.C. 5904(a)(1)(B).
[132] 12 U.S.C. 5915(b).

the amount of non-Payment Stablecoin crypto-assets that a PPSI may hold at any time? If so, how should those limits be calibrated? Should any limit be based on anticipated fees, a percentage of assets, or be set at a certain value threshold?

Question 28: Should there be any limit on what methods of payment a PPSI can accept when assessing fees, including fees associated with the purchasing or redeeming of Payment Stablecoins? Should the final rule include provisions addressing a PPSI's potential assessment of fees in crypto-assets other than Payment Stablecoins and how long issuers can hold onto such crypto-assets? Are there specific forms of payment outside of fiat and Payment Stablecoin that PPSIs will need to accept that the NCUA should provide additional clarity on?

Question 29: Should the NCUA include an approval process for the activities listed in the Section 4(a)(7)(B) of the GENIUS Act, including Digital Asset service provider activities and activities incidental to Payment Stablecoin activities or Digital Asset service provider activities?[133]

Question 30: Should the NCUA clarify proposed § 706.201(a)(8) by providing specific examples of activities that directly support the activities in proposed § 706.201(a)(1) through (4)? Are there specific examples of activities that directly support the activities in proposed § 706.201(a)(1) through (4) that should be clarified? Should the NCUA distinguish between what it means for an activity to directly support the activities in proposed § 706.201(a)(1) through (4), and therefore, satisfy the test in proposed § 706.201(a)(8) as opposed to what it means for an activity to be incidental to the activities in proposed § 706.201(a)(1) through (7) provided in section 4(a)(7)(B) of the GENIUS Act? Should the NCUA provide an approval process related to Digital Asset service provider activities and/or incidental activities?

Question 31: The proposed rule would permit a PPSI to hold non-Payment Stablecoin crypto-assets to pay certain fees (*e.g.,* network fees). Should the rule include an express limitation on the amount of such crypto-assets that the PPSI may hold? For example, the rule

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[133] 12 U.S.C. 5903(a)(7)(B).

could provide that the amount of such crypto-assets may not exceed reasonably expected near-term demand.

Question 32: Could the prohibition against paying interest or yield solely in connection with the holding or use of a permitted Payment Stablecoin be clarified? If so, how? Would it be helpful to include a *de minimis* exception to the prohibition to provide certainty with respect to arrangements that are not designed to violate the prohibition and that do not have a meaningful economic impact? If so, is there any specific guidance the NCUA should provide on what *de minimis* means?

Question 33: Does the presumption with respect to the prohibition against paying interest or yield solely in connection with the holding, use, or retention of a permitted Payment Stablecoin appropriately address concerns relating to evasion? Is the presumption with respect to the prohibition against paying interest or yield solely in connection with the holding, use, or retention of a permitted Payment Stablecoin appropriately scoped? Is the presumption sufficiently clear? How could the presumption be clarified? Should the NCUA clarify the standard of review under which it would consider written materials to rebut the presumption related to interest or yield and specify whether the NCUA's determination is appealable? Should the NCUA propose any safe harbor for arrangements that the NCUA believes do not violate the statutory prohibition?

Question 34: Should the prohibition on interest and yield in proposed § 706.201(c)(4) be broader to prevent issuers from directly or indirectly paying interest or yield to Payment Stablecoin holders (rather than presuming that certain arrangements with Affiliates or related third parties violate the prohibition)? Are there examples of potentially evasive behavior that the NCUA should expressly include in a prohibition? If the NCUA were to expand the prohibition, are there activities that should be expressly carved out of such an expansion?

Question 35: Should the prohibition on interest and yield in proposed § 706.201(c)(4) clarify the terms "pay," "interest," "yield," "solely," or any other terms? If so, what clarifications would be helpful? What types of rewards, if any, should be subject to the prohibition?

Question 36: What would the economic impact of a narrow prohibition on paying interest or yield solely in connection with the holding, use or retention of a Payment Stablecoin be relative to a broader prohibition (*i.e.,* one that includes relationships with Affiliates or third parties)? What impact would either prohibition have on deposits and funds placed in Share Accounts?

Question 37: Is the scope of the prohibition against pledging, rehypothecating, or reusing Reserve Assets sufficiently clear? Are there specific types of transactions, relationships, or structures for which it would be helpful to clarify whether the prohibition applies? For example, should the NCUA clarify whether the prohibition would prevent establishing a collateral trustee that would hold a security interest in Reserve Assets for the benefit of Payment Stablecoin holders? What arguments weigh for and against finding that the prohibition would prohibit these arrangements? If a PPSI sets up a collateral trustee arrangement where the issuer grants a security interest in the Reserve Assets, does this arrangement sufficiently protect the Reserve Assets in the event of insolvency or bankruptcy? Should a PPSI be required to make particular disclosures if it uses such an arrangement? What should those disclosures include?

Question 38: Should the NCUA specify what "creating liquidity to meet reasonable expectations of requests to redeem Payment Stablecoins" means under proposed § 706.201(c)(5)(iii)? Should the NCUA pre-approve repurchase agreements by rule as proposed in § 706.205(c)(5)(iii)(B)? Alternatively, should the NCUA allow for broad and open-ended approvals of the sale of reserves as purchased securities in repurchase agreements or should approvals be limited to specific types of transactions? What factors should the NCUA consider prior to granting approval of the sale of reserves as purchased securities in repurchase agreements under proposed § 706.201(c)(5)(iii)(B)?

Question 39: Should PPSIs be required to provide disclosures stating that Payment Stablecoins are not legal tender, issued by the United States, or guaranteed or approved by the United States? If so, should the NCUA impose any requirements on the manner in which disclosures are made? For example, should the NCUA require that disclosures be made on the PPSI's website, at point of direct sale by the issuer, alongside other types of disclosures, or in some other manner?

Question 40: Is any further clarity needed regarding the prohibition on the use of deceptive names, marketing, and representations in proposed § 706.201(c)(1) through (3)? For example, should the NCUA specify what kind of images or branding are likely to violate the prohibition? Should the NCUA require PPSIs to affirmatively state that Payment Stablecoins are not legal tender, issued by the United State, or guaranteed or approved by the Government of the United States? Should the NCUA explicitly require PPSIs to disclose that Payment Stablecoins are not subject to deposit or share insurance?

Question 41: Is the proposed prohibition on providing credit to Customers to purchase Payment Stablecoins appropriate? If so, should the prohibition be modified in any way? Should it be narrower or broader? If not, are there alternatives to achieve the intended objective or ensuring Reserve Assets achieve the intended resiliency? Are there any other activities that the NCUA should expressly prohibit as not being permissible and not in direct support of issuance, redemption, managing reserves, and providing certain safekeeping and custody services?

2. § 706.202. Reserve Assets

a. Proposed § 706.202

Proposed § 706.202 contains requirements applicable to Reserve Assets. Section 4(a)(1)(A) of the Act provides that a PPSI must maintain identifiable reserves backing the outstanding Payment Stablecoins of the PPSI on an at least one-to-one basis and specifies the eight permissible Reserve Asset types.[134] The one-to-one backing requirement applies at the

[134] 12 U.S.C. 5903(a)(1)(A).

PPSI level. A PPSI would not comply with this requirement if it did not maintain Reserve Assets sufficient to meet the one-to-one backing requirement. A PPSI may maintain Reserve Assets through a custodian, including an Affiliate acting as a custodian, as long as the custodian qualifies as an Eligible Financial Institution.

Proposed § 706.202(a)(1) would require that an NCUA-Licensed PPSI maintain Reserve Assets that: (i) are identifiable; (ii) are segregated from and not commingled with other assets owned or held by the NCUA-Licensed PPSI; (iii) at all times have a total Fair Value that equals or exceeds the Outstanding Issuance Value of the NCUA-Licensed PPSI; and (iv) are either held directly by the NCUA-Licensed PPSI or within the custody of an Eligible Financial Institution. In order to maintain Reserve Assets that are "identifiable" and comply with proposed § 706.202(a)(1)(i), NCUA-Licensed PPSIs must maintain appropriate records to ensure documented ownership and legal entitlement to individual Reserve Assets. Similarly, any ownership arrangements, including ownership via custodians, must comply with applicable laws and regulations, for example, requirements applicable to Customer securities owned through the Fedwire Securities Service. The NCUA generally anticipates that Reserve Assets will be recorded on the NCUA-Licensed PPSI's balance sheet under GAAP and be included in the quarterly reports required under proposed § 706.205(i). An NCUA-Licensed PPSI must maintain the appropriate operational capabilities, internal controls, policies, and safeguards to ensure that Payment Stablecoins are always backed by reserves on an at least a one-to-one basis. Among other things, safeguards may include mechanisms to prevent the issuance of abnormally large amounts of new Payment Stablecoins without additional approvals.[135]

To comply with the requirement in proposed § 706.202(a)(1)(iii), an NCUA-Licensed PPSI must ensure that the Fair Value of Reserve Assets equal or exceed the Outstanding

[135] *C.f.,* Dylan Butts, "PayPal's crypto partner mints a whopping $300 trillion worth of stablecoins in 'technical error,'" CNBC (Oct. 16, 2025), *https://www.cnbc.com/2025/10/16/paypals-crypto-partner-mints-300-trillion-stablecoins-in-technical-error.html* (describing a technical error leading to the minting of a large amount of new stablecoins).

Issuance Value of the outstanding Payment Stablecoins issued by the NCUA-Licensed PPSI at all times. Valuing Reserve Assets at Fair Value (*i.e.,* market value), rather than another measure, such as amortized cost, will help ensure that the Reserve Assets maintained by the NCUA-Licensed PPSI reflect current prices and will be monetizable at a value sufficient to meet any redemption requests at par value. Notably, the Outstanding Issuance Value is based on the total consolidated par value of all of an NCUA-Licensed PPSI's Payment Stablecoins rather than on the Fair Value of the outstanding issued Payment Stablecoin. Thus, if the Fair Value of the Payment Stablecoin decreased (*i.e.,* if the Payment Stablecoin de-pegged in the secondary market), the NCUA-Licensed PPSI would nevertheless be obligated to retain a stock of Reserve Assets, the Fair Value of which equals or exceeds the par value of outstanding Payment Stablecoins. This approach is intended to ensure that the NCUA-Licensed PPSI is able to credibly meet redemption requests, including in adverse circumstances. To take a contrary approach (*e.g.,* basing the Outstanding Issuance Value on the Fair Value of Payment Stablecoins) could allow NCUA-Licensed PPSIs to inappropriately remove assets from the required stock of Reserve Assets when stablecoins de-peg (as Reserve Asset requirements decline, along the with the secondary market price of the Payment Stablecoin), rather than maintaining the Reserve Assets on behalf of Payment Stablecoin holders, which may in turn exacerbate run risk for an NCUA-Licensed PPSI.

Proposed § 706.202(a)(1)(iv) provides that the Reserve Assets must either be held directly by the NCUA-Licensed PPSI or within the custody of an Eligible Financial Institution, which is defined in proposed § 706.2.

Proposed § 706.202(a)(2) would require that an NCUA-Licensed PPSI demonstrate the operational capability to access and monetize the identifiable Reserve Assets, commensurate with the NCUA-Licensed PPSI's risk profile and business model. The NCUA-Licensed PPSI must be able to monetize the Reserve Assets, potentially quickly and at short notice, in order to

meet redemption requests. The inability to quickly monetize Reserve Assets would undermine the ability of a PPSI to maintain the stable value of its Payment Stablecoin.

To comply with proposed § 706.202(a)(2), an NCUA-Licensed PPSI must be able to demonstrate the ability to monetize all types of Reserve Assets it maintains. Depending on an NCUA-Licensed PPSI's size, risk profile, business model, activities, and operations, a PPSI may be able to demonstrate monetization in different ways. For example, it may be sufficient for some NCUA-Licensed PPSIs to demonstrate the ability to monetize Treasury bills they hold as Reserve Assets by establishing that they maintain appropriate repurchase arrangements through which they can quickly sell Treasury bills and receive liquid funds with which they can satisfy redemption requests. For other NCUA-Licensed PPSIs, for example, larger issuers or those with more complicated operations, additional measures may be appropriate to demonstrate the operational capability to monetize. It may be appropriate for such NCUA-Licensed PPSIs to maintain multiple alternative methods of monetization (for example, multiple repurchase agreement lines or repurchase agreement lines plus arrangements allowing outright sales of Treasury securities) in order to satisfactorily demonstrate the ability to monetize their Reserve Assets. Such redundant arrangements may be necessary if an NCUA-Licensed PPSI maintains a sufficiently large Treasury position that it could be difficult to monetize the entire position through transactions with a single repo counterparty or if an issuer maintains concentrated positions in particular types of Reserve Assets. The availability of multiple monetization channels helps ensure that an NCUA-Licensed PPSI is not required to monetize assets at reduced or "fire sale" prices. Having alternative monetization channels reduces the risk that an issuer would be obliged to accept unfavorable pricing when monetizing Reserve Assets under stress.

For certain NCUA-Licensed PPSIs, it may be necessary to periodically conduct actual monetization transactions (that is, actual outright sales or repurchase transactions) in order to demonstrate the ability to monetize. Actual transactions can more fully confirm that monetization capabilities exist. In the absence of actual test transactions, potential barriers to

monetization may still exist. NCUA-Licensed PPSIs may lack the procedures and systems to monetize assets at any time in accordance with standard settlement periods and processes. For example, borrowing agreements may name authorizing officials that are unavailable or inappropriate. Actual monetization transactions may be necessary, for example, for issuers with unusually complicated operations or organizational structures, or for issuers that are particularly dependent on certain monetization channels or the ability to monetize particular assets. Periodic actual monetization transactions can minimize the risk of negative signaling during financial stress. If an NCUA-Licensed PPSI begins using a monetization channel that it has not regularly used in the past, that may spark concerns about the financial health of the issuer. For example, if an NCUA-Licensed PPSI has pre-established a repurchase agreement with a bilateral counterparty but never utilized it, sudden utilization of the repurchase agreement may generate concerns that the issuer is experiencing a run on its Payment Stablecoins. Periodic test transactions using multiple monetization channels can mitigate such concerns. NCUA-Licensed PPSIs may be able to demonstrate the ability to execute actual monetization transactions in the ordinary course of their business (for example, redeeming Payment Stablecoins) and would not necessarily be required to engage in additional test transactions.

Proposed § 706.202(a)(3) would include requirements for when NCUA-Licensed PPSIs could withdraw Reserve Assets in excess of Outstanding Issuance Value. In order to ensure that sufficient Reserve Assets are maintained to back outstanding Payment Stablecoin issuance, NCUA-Licensed PPSIs would be able to withdraw excess Reserve Assets only after the monthly examination and certification required by section 4(a)(3) of the GENIUS Act[136] and provided for in proposed § 706.202(e) and (f). Specifically, NCUA-Licensed PPSIs would be able to withdraw any surplus Reserve Assets in excess of Outstanding Issuance Value, calculated and reported as of the last day of the previous month, only upon the publication of that month's public disclosure, due at the end of the subsequent month. Only permitting an issuer to withdraw

[136] 12 U.S.C. 5903(a)(3).

surplus Reserve Assets after examination and certification will promote public confidence about the integrity of the handling of Reserve Assets. Permitting withdrawal of excess Reserve Assets at other intervals would significantly undermine the purpose of examination and certification. If NCUA-Licensed PPSIs were able to withdraw excess Reserve Assets at any time, based only upon their own internal calculations, that could undermine confidence and even create concerns about misconduct, for example if an issuer might make its own bad faith and un-validated determination that an excess existed in order to justify a withdrawal. Proposed § 706.202(a)(3) would also require that, while withdrawals would be based on calculations as of the end of the previous month, an NCUA-Licensed PPSI could only make withdrawals if the remaining Reserve Assets remained at least equal to the current Outstanding Issuance Value, calculated as of the day of withdrawal.

Under proposed § 706.202(b), reserve assets must only comprise: (1) United States coins and currency (including Federal Reserve notes) or Money standing to the credit of an account with a Federal Reserve Bank; (2) funds held as deposits or in Share Accounts[137] that are payable upon demand at an IDI (including any foreign branches or agents, including correspondent banks, of an IDI), subject to any limitation established by the FDIC and the NCUA, as applicable, pursuant to section 4(a)(1)(A)(ii) of the GENIUS Act to address safety and soundness risks of such IDI;[138] (3) Treasury bills, Treasury notes, or Treasury bonds with a remaining maturity of 93 days or less;[139] (4) Money received under repurchase agreements, with the

[137] Section 4(a)(1)(A)(ii) of the GENIUS Act refers to reserves comprising "funds held as demand deposits (or other deposits that may be withdrawn upon request at any time) or insured shares at an insured depository institution…." For the reasons expressed in the sections (section IV.B) of this preamble proposing the defined terms "Monetary Value" and "Share Account), the NCUA is proposing to use the defined term "Share Account." The NCUA believes this approach is clearer than utilizing the undefined term "insured shares" from the Act. The proposed rule would also simplify and clarify the GENIUS Act's text by limiting deposits and funds in Share Accounts than can be reserves to those that are "payable upon demand" at an IDI. The GENIUS Act refers to "demand deposits (or other deposits that may be withdrawn upon request at any time)…." The NCUA believes this construction can be more simply stated as proposed without any substantive change.

[138] 12 U.S.C. 5903(a)(1)(A)(ii).

[139] The GENIUS Act permits the inclusion of Treasury bills, notes, or bonds "(I) with a remaining maturity of 93 days or less; or (II) issued with a maturity of 93 days or less." The proposed rule would combine these categories since the former category includes the latter, at least for purposes of complying with the requirements of proposed § 706.202. NCUA-Licensed PPSIs may choose to categorize these assets separately for other reasons, for example accounting or risk management purposes.

NCUA-Licensed PPSI acting as a seller of securities and with a no longer than overnight maturity, that are backed by Treasury bills with a maturity of 93 days or less;[140] (5) reverse repurchase agreements, with the NCUA-Licensed PPSI acting as a purchaser of securities and with a no longer than overnight maturity, that are collateralized by Treasury bills, Treasury notes, or Treasury bonds on a no longer than overnight basis, subject to overcollateralization in line with standard market terms, that are: (i) tri-party; (ii) centrally cleared through a clearing agency registered with the Securities and Exchange Commission; or (iii) bilateral with a counterparty that the issuer has determined to be adequately creditworthy even in the event of severe market stress; (6) securities issued by an investment company registered under section 8(a) of the Investment Company Act of 1940,[141] or other registered Government money market fund, and that are invested solely in underlying assets described in proposed § 706.202(b)(1) through (5);[142] (7) any other similarly liquid Federal Government-issued asset approved by the NCUA; or (8) any reserve described in proposed § 706.202(b)(1) through (3), (6), or (7), in tokenized form, provided that such reserves comply with all applicable laws and regulations.

The NCUA encourages any NCUA-Licensed PPSI that seeks clarity on whether a specific tokenized asset qualifies as a permissible Reserve Asset under proposed § 706.202(b)(8) to discuss with the NCUA whether the asset qualifies. To the extent feasible, the NCUA is considering publishing a list of, or otherwise making public, the acceptable tokenized Reserve Assets for the sake of transparency. In determining whether a potential Reserve Asset qualifies as "any other similarly liquid Federal Government-issued asset," under proposed § 706.202(b)(7) the NCUA will consider, among other relevant factors, whether: (i) the asset has liquidity

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[140] The proposed rule would clarify that a repurchase agreement or reverse repurchase agreement with an intraday maturity could qualify as a permitted reserve asset. Section 4(a)(1)(A)(iv) and (v) of the Act (12 U.S.C. 5903(a)(1)(A(iv) and (v))) specifically refers to repurchase agreements and reverse repurchase agreements with an overnight maturity. The NCUA believes that this provision is intended to permit repurchase agreements and reverse repurchase agreements with a maturity no longer than overnight. Thus, the proposed rule would explicitly permit the use of intraday repurchase agreements and reverse repurchase agreements.

[141] 15 U.S.C. 80a-8(a).

[142] A money market fund that invests in any other assets, including in Treasury securities with a remaining maturity longer than 93 days, would not be eligible to be held as a Reserve Asset.

characteristics, including during times of stress, comparable to the other Reserve Assets allowed under proposed § 706.202(b); (ii) NCUA-Licensed PPSIs will be operationally capable of monetizing the asset to meet redemption requests, including sudden and high-volume requests; (iii) the asset poses levels of risk comparable to the assets allowed under proposed § 706.202(b), including interest rate risk and counterparty credit risk; and (iv) whether the asset introduces additional risks that may be difficult for NCUA-Licensed PPSIs to manage.

Section 4(a)(4)(A)(iii) of the GENIUS Act requires the NCUA to issue regulations implementing Reserve Asset diversification, including deposit concentration at banking institutions and interest rate risk management standards that (1) are tailored to the business model and risk profile of PPSIs and (2) do not exceed standards that are sufficient to ensure the ongoing operations of PPSIs.[143] As discussed throughout this preamble, the GENIUS Act regularly uses banking-specific terminology. The NCUA interprets "deposit concentration at banking institutions" to include deposits and funds in Share Accounts at all IDIs.

In proposing regulations to implement the Reserve Asset diversification requirement, the proposed rule includes two alternative options in proposed § 706.202(c), only one of which would be selected in the final rule. "Option A" would include a principles-based general requirement with an optional safe harbor containing quantitative requirements. "Option B" would make the quantitative requirements mandatory for all NCUA-Licensed PPSIs. Option A's principle-based general requirement would require an NCUA-Licensed PPSI to maintain Reserve Assets that are sufficiently diverse to manage potential credit, liquidity, interest rate, and price risks. In addition, the principles-based requirement in Option A in proposed § 706.202(c) would require an NCUA-Licensed PPSI to measure and manage the risk that concentrating Reserve Assets at one Eligible Financial Institution or a small number of Eligible Financial Institutions may impair the ability of an NCUA-Licensed PPSI to satisfy redemption demands if individual Eligible Financial Institutions are unable to return, or if there is a delay in returning, Reserve

[143] 12 U.S.C. 5903(a)(4)(A)(iii).

Assets placed by an NCUA-Licensed PPSI.[144] The proposed rule's diversification and concentration requirements would apply to custodial relationships, including sub-custodial arrangements. NCUA-Licensed PPSIs would be expected to "look through" any sub-custodial relationships to ensure that Reserve Assets are custodied at the sufficiently diverse number of Eligible Financial Institutions needed to comply with the proposed rule's requirements. Without this requirement, a PPSI might supposedly have its stock of Treasury securities custodied at multiple Eligible Financial Institutions, but sub-custodial relationships could result in the entire stock being custodied at only a single Eligible Financial Institution.

NCUA-Licensed PPSIs with less complex business models and lower risk profiles may be able to maintain a less diverse stock of Reserve Assets than NCUA-Licensed PPSIs with more complex business models or higher risk profiles. However, the NCUA interprets section 4(a)(4)(A)(iii) of the GENIUS Act as mandating some Reserve Asset diversification for all PPSIs,[145] both in types of Reserve Assets maintained and in the number of Eligible Financial Institutions holding a PPSI's Reserve Assets.[146] The NCUA expects that it would be unlikely, for example, that an NCUA-Licensed PPSI, even one with a simple business model and low risk profile, could satisfy the requirements in proposed § 706.202(c) by placing all its Reserve Assets at a single Eligible Financial Institution. Such a reliance on a single third-party location of Reserve Assets could expose the NCUA-Licensed PPSI to the unnecessary risk that its Reserve

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[144] Eligible Financial Institutions that hold Reserve Assets in custody or safekeeping must be subject to supervision and comply with the requirements set forth in section 10 of the GENIUS Act (12 U.S.C. 5909). Institutions subject to NCUA supervision would need to comply with the requirements set forth in proposed subpart C of part 706.

[145] 12 U.S.C. 5903(a)(4)(A)(iii).

[146] An NCUA-Licensed PPSI that maintains ownership and control of all of its own Reserve Assets, rather than relying on separate Eligible Financial Institutions, may be able to satisfy the principles-based general diversification and concentration requirement in Option A, depending on the PPSI's particular circumstances. While explicitly requiring all NCUA-Licensed PPSIs to maintain some Reserve Assets at a third-party Eligible Financial Institution may help promote confidence that an issuer's Reserve Assets are diversified across multiple Eligible Financial Institutions, such a requirement may be unnecessary if the PPSI is able to establish its own secure control over the Reserve Assets. Any NCUA-Licensed PPSI maintaining direct ownership and control of Reserve Assets would still be subject to all requirements in proposed § 706.202, notably the requirement in proposed § 706.202(a)(2) under which the PPSI must demonstrate the operational capability to access and monetize Reserve Assets. An NCUA-Licensed PPSI that maintains ownership and control of its own assets may fail to satisfy this requirement, or the diversification and concentration requirements in proposed § 706.202(c), if the PPSI, for example, relies exclusively on arrangements with a single Eligible Financial Institution to monetize its Reserve Assets.

Assets, or some portion of them, could be unavailable to meet redemption requests. Similarly, the NCUA expects that all NCUA-Licensed PPSIs will need to maintain multiple Reserve Asset types, if only to serve as a back-up to what is otherwise a PPSI's primary Reserve Asset. Some NCUA-Licensed PPSIs may need to maintain more robustly diverse stocks of Reserve Assets to satisfy proposed § 706.202(c), depending on their business model, risk profile, and other relevant factors. For example, a large NCUA-Licensed PPSI with complex operations may need to maintain deposits and/or Share Accounts) with multiple Eligible Financial Institutions, as well as a stock of Treasury bills, potentially custodied with more than one Eligible Financial Institution in order to ensure they are capable of being monetized during periods of financial stress. Factors such as the number of parties that redeem directly with the NCUA-Licensed PPSI, the volume of redemptions (and volatility with respect to such volume), and the number and nature of the blockchains on which a Payment Stablecoin is traded could all increase the complexity of the PPSI's operations and weigh in favor of maintaining multiple different pools of Reserve Assets. NCUA-Licensed PPSIs may be able to comply with this requirement by maintaining multiple deposit accounts and/or Share Accounts, or through deposit or share placement services, as they can comply with the requirement in proposed § 706.202(a)(2) to demonstrate the operational capability to access and monetize the Reserve Assets.

Option A contains a safe harbor under which an NCUA-Licensed PPSI would be deemed to satisfy proposed § 706.202(c) if the PPSI maintains on each business day: (i) at least 10 percent of its required Reserve Assets as deposits and/or funds in Share Accounts payable upon demand at IDIs or Money standing to the credit of an account with a Federal Reserve Bank; (ii) at least 30 percent of its Reserve Assets as deposits and/or funds in Share Accounts payable upon demand at IDIs, Money standing to the credit of an account with a Federal Reserve Bank, or amounts receivable and due unconditionally within five business days on pending sales of Reserve Assets, maturing Reserve Assets, or other maturing transactions (*e.g.,* reverse repurchase agreements); (iii) no more than 40 percent of its Reserve Assets at any one Eligible

Financial Institution, whether as deposits and/or funds in Share Accounts payable upon demand at any one IDI, securities custodied at any one Eligible Financial Institution, bilateral reverse repurchase agreements with any counterparty, or through other exposures; (iv) no more than 50 percent of the amount provided in proposed § 706.202(c)(2)(i) at any one Eligible Financial Institution; and (v) Reserve Assets with a weighted average maturity of no more than 20 days.

Weighted average maturity is computed as the sum of the product of each Reserve Asset's (1) remaining maturity and (2) percentage of the total pool of Reserve Assets (based on principal value). Deposits or Share Accounts payable upon demand would have a weighted average maturity of zero. The NCUA invites comments on whether the proposed rule should include an express definition of weighted average maturity, particularly whether the NCUA should adopt the same definition used in SEC Rule 2a-7 (17 CFR 270.2a-7). Paragraph (i) of SEC Rule 2a-7 provides that, for certain securities and transactions, maturity should not necessarily be the time remaining until ultimate repayment of principal but instead should be based on other characteristics (for example, the time until an interest rate reset or until demand repayment options can be exercised). The NCUA invites comment on whether this proposed rule should include these same maturity assumptions for certain Reserve Assets. The proposed rule does not include these maturity assumptions since they should not be relevant for most or all permissible Reserve Assets. Even if the maturity assumptions are relevant for certain Reserve Assets that might be permissible (for example, Floating Rate Treasury Notes), the NCUA expects that the limited maturity of Reserve Assets (93 days or less) will diminish the value of applying maturity assumptions. Accordingly, under the proposed rule, the NCUA expects that the maturity of all Reserve Assets, for purposes of calculating weighted average maturity, will be the time remaining until the repayment of principal.

This safe harbor would give NCUA-Licensed PPSIs a transparent and standardized target for achieving compliance with Reserve Asset diversification requirements.[147] However, under Option A, meeting the safe harbor is not the only means to comply with proposed § 706.202(c). Some issuers, particularly smaller and less complex issuers, may be able to comply with § 706.202(c) without meeting the minimum levels in the safe harbor. For example, if a smaller NCUA-Licensed PPSI with a comparatively simple business model and lower risk profile finds it commercially useful to maintain more of its Reserve Assets as deposits and/or funds in Share Accounts payable upon demand, the PPSI may be able to satisfy proposed § 706.202(c) even if the PPSI maintains more than 10 percent of its Reserve Assets as Deposits and/or funds in Share Accounts at one Eligible Financial Institution, depending on particular facts and circumstances. This flexibility is consistent with the GENIUS Act's requirements that the proposed asset diversification requirements be "tailored to the business model and risk profile of permitted payment stablecoin issuers."[148]

The safe harbor's requirement that an NCUA-Licensed PPSI maintain at least 10 percent of its Reserve Assets as "daily liquidity": deposits and/or funds in Share Accounts payable upon demand or Money standing to the credit of an account with a Federal Reserve Bank would help ensure that a PPSI has readily available funds necessary to meet redemption requests. While all of the proposed Reserve Assets should be liquid and easily monetizable, the requirement to have some minimum level of immediately liquid funds is additional protection against the risk that a PPSI would be unable to meet redemption requests in a timely manner, which is critical to avoid in order to maintain confidence in the PPSI and the Payment Stablecoin industry as a whole. A minimum requirement of 10 percent would be in line with the largest 1-day redemption events

[147] The NCUA recognizes that, as an NCUA-Licensed PPSI sells more liquid assets to meet redemption requests in times of stress, it may temporarily fail to satisfy the terms of the proposed safe harbor. An NCUA-Licensed PPSI should appropriately diversify its Reserve Assets as soon as practicable following such an event. However, at no point, can an NCUA-Licensed PPSI's Reserve Assets be less than the Fair Value of the Outstanding Issuance Value of the PPSI as required in proposed § 706.202(a)(1)(iii).
[148] 12 U.S.C. 5903(a)(4)(A)(iii)(I).

experienced by stablecoin issuers.[149] The NCUA invites comment on whether an alternate minimum is appropriate.

Including a baseline requirement to maintain a minimum percentage of liquidity that is immediately available (without the need to sell any assets, even highly liquid assets like Treasury securities) will help ensure an NCUA-Licensed PPSI's ability to meet redemption requests. The NCUA invites comments on these and other considerations, particularly on whether conservative liquidity requirements are necessary. The proposed rule includes robust liquidity requirements but does not include capital-based overcollateralization or Reserve Asset buffer requirements. An alternative possibility would be to remove some of the proposed liquidity requirements, though this may warrant increased capital or buffer requirements.

The safe harbor would also require that an NCUA-Licensed PPSI maintain at least 30 percent of its Reserve Assets as deposits and/or funds in Share Accounts payable upon demand, Money standing to the credit of an account with a Federal Reserve Bank, or amounts receivable and due unconditionally within five business days on pending sales of Reserve Assets, maturing Reserve Assets, or other maturing transactions. This "weekly" liquidity would help ensure that an NCUA-Licensed PPSI is able to meet a series of redemption requests that takes place over multiple days. It will also help prevent issuers from meeting the "daily" liquidity requirement but otherwise maintaining a stock of assets that are less readily monetizable. A minimum requirement of 30 percent "weekly" liquidity would protect issuers against redemption runs that take place over multiple days, a phenomenon experienced by stablecoin issuers in the past, and a 30 percent minimum requirement would exceed the redemption volumes seen during these redemption runs. In the absence of a minimum "weekly" (or other multi-day) requirement, an issuer might only have its stock of 10 percent immediately available liquidity plus owned securities that it would have to actually sell in order to monetize and meet redemption requests.

[149] Although the NCUA referenced SEC Rule 2a-7 when drafting these requirements due to certain similarities between money market funds and PPSIs, the proposed requirements diverge in certain respects based on inherent differences between the two (*e.g.,* Reserve Asset composition).

While NCUA-Licensed PPSIs must be prepared to monetize any such securities, it would be safer to have a stock of liquid funds that will automatically become available over the next several days as a first line of defense against multi-day redemption runs.

The safe harbor would also require that an NCUA-Licensed PPSI maintain no more than 40 percent of its Reserve Assets at any one Eligible Financial Institution, whether as Deposits and/or funds in Share Accounts payable upon demand at any one IDI, securities custodied at any one Eligible Financial Institution, bilateral reverse repurchase agreements with any counterparty, or through other exposures. This requirement would prevent an issuer from being overly exposed to any One Eligible Financial Institution. While this requirement would not eliminate the chance of losing Reserve Assets because of distress at an Eligible Financial Institution holding Reserve Assets—or temporarily losing access to Reserve Assets—this requirement would ensure that NCUA-Licensed PPSIs have other stocks of Reserve Assets available to satisfy redemption requests. This requirement is meant to capture all potential exposures to a counterparty. An NCUA-Licensed PPSI could maintain deposits and/or funds in Share Accounts payable upon demand at an IDI while at the same have an Affiliate of that IDI maintain custody of the issuer's securities or serve as a counterparty in repurchase or reverse repurchase transactions. All of these transactions could expose an NCUA-Licensed PPSI's Reserve Assets to the health of a single Eligible Financial Institution. Accordingly, this requirement would aggregate exposures to prevent excessive exposure to any one Eligible Financial Institution. The phrase "or other exposures" is meant to capture any other exposure that creates a similar risk. The NCUA invites comments on alternate minimums besides 40 percent; the 40 percent measure would ensure that no one Eligible Financial Institution would have a majority of an NCUA-Licensed PPSI's Reserve Assets and that issuers spread relationships and operational capabilities across multiple Eligible Financial Institutions in a way that prevents a PPSI coming to rely excessively on one Eligible Financial Institution.

The safe harbor would also require that an NCUA-Licensed PPSI maintain no more than 50 percent of the required daily liquidity specified under proposed paragraph (c)(2)(i) at any one Eligible Financial Institution. This requirement would guard against the risk that problems at one Eligible Financial Institution prevent a PPSI from accessing its Reserve Assets. If an NCUA-Licensed PPSI is dependent on one Eligible Financial Institution to maintain all or a large portion of its Reserve Assets, the PPSI may be excessively exposed to, for example, operational concerns at that Eligible Financial Institution or even the risk of the institution's failure.

Proposed § 706.202(c)(2)(i) is designed to ensure that NCUA-Licensed PPSIs have a sufficient minimum amount of readily available funds to meet redemption requests. However, if that entire amount consists of deposits and/or funds in Share Accounts at one IDI, the PPSI is exposed to the risk that problems at that IDI could wholly prevent the PPSI from accessing its readily available funds. Having at least one other stock of readily available funds as part of a PPSI's Reserve Assets would help ensure that some readily available funds are accessible in order to meet redemption requests. Placing deposits and/or funds in Share Accounts payable upon demand at multiple IDIs, whether directly or through deposit/share placement services, would mitigate the risk of over-exposure to one particular IDI.

Proposed § 706.202(c)(2)(v) would also require, to qualify for the safe harbor, that an NCUA-Licensed PPSI's Reserve Assets have a weighted average maturity of no more than 20 days. This would serve as a backstop against potential losses due to interest rate increases. While PPSIs may permissibly hold Reserve Assets with a maturity of up to 93 days, holding a portfolio of Reserve Assets concentrated at the outer end of that maturity limit exposes the issuer's Reserve Assets to losses due to interest rate increases.[150] Even small losses could undermine confidence in a Payment Stablecoin given the importance of maintaining par and ensuring a

[150] During the rapid increases in interest rates in the early 1980s, 3-month Treasury Bill secondary market rates increased from 12.05 percent to 15.37 percent over the period of a month. *See* Fed. Reserve Econ. Data, "Table Data—3-Month Treasury Bill Secondary Market Rate, Discount Basis," *https://fred.stlouisfed.org/data/WTB3MS* (including Treasury Bill secondary market rates for February 8, 1980, and March 7, 1980). A change of this magnitude would result in a 90-day security losing approximately 0.79 percent of its value.

stable value. A limit on weighted average maturity imposed across the entire portfolio of an NCUA-Licensed PPSI's Reserve Assets would allow the issuer to hold the entire range of permissible assets while ensuring that the portfolio in aggregate does not have excess exposure to interest rate risk. A limit of 20 days would still allow NCUA-Licensed PPSIs the full range of permissible Reserve Assets (for example, newly issued 3-month Treasury bills) while ensuring that Reserve Assets are not overly concentrated in longer-dated issuances. The NCUA invites comment on whether a weighted average maturity limit of 20 days is appropriate, including whether it would represent a binding constraint for current stablecoin issuers and the desirability of higher or lower limits. The NCUA additionally invites comment on whether the weighted average maturity requirement for a large issuer should differ from that for a smaller issuer (*e.g.,* by allowing smaller issuers to have a longer weighted average maturity such as 30 or 40 days).

As an example, an NCUA-Licensed PPSI with $20 billion of Outstanding Issuance Value could meet the safe harbor by depositing at least $1 billion each at two IDIs. This would meet the requirement in proposed § 706.202(c)(2)(i) that the NCUA-Licensed PPSI maintain at least 10 percent ($2 billion in this example) of its required Reserve Assets as readily available funds as well as the requirement in proposed § 706.202(c)(2)(iv) that the NCUA-Licensed PPSI maintain no more than 50 percent of its readily available funds at any one Eligible Financial Institution ($1 billion in this example). In order to qualify for the safe harbor, the NCUA-Licensed PPSI would still need to satisfy proposed § 706.202(c)(2)(iii), under which an issuer could not maintain more than 40 percent of its Reserve Assets at any one Eligible Financial Institution and proposed § 706.202(c)(2)(ii), under which an NCUA-Licensed PPSI must maintain at least 30 percent of its Reserve Assets as deposits and/or funds in Share Accounts payable upon demand at IDIs, Money standing to the credit of an account with a Federal Reserve Bank, or amounts receivable and due conditionally within five business days on pending sales of Reserve Assts, maturing Reserve Assets, or other maturing transactions. In this example, the NCUA-Licensed PPSI could not keep more than $8 billion in Reserve Assets at any one institution (for instance,

invested in a single investment fund) and would also need to maintain at least $6 billion as deposits and/or funds in Share Accounts payable upon demand at IDIs, Money standing to the credit of an account with a Federal Reserve Bank, or amounts receivable and due unconditionally within five business days on pending sales of Reserve Assets or other maturing transactions. The issuer would also need to ensure that its entire stock of Reserve Assets ($20 billion) complied with the requirement to have a weighted average maturity of no more than 20 days. While compliance with the diversification safe harbor would establish compliance with proposed § 706.202(c), it would not relieve an NCUA-Licensed PPSI of its obligations under proposed § 706.202(a). Notably, an NCUA-Licensed PPSI would still be required to maintain and demonstrate the operational capability to monetize its Reserve Assets.

Option B would impose the same quantitative standards as mandatory requirements, rather than an optional safe harbor. Option B would not include the baseline principles-based requirement. While Option B would remove flexibility, it would create a more transparent and readily comprehensible set of requirements. NCUA-Licensed PPSIs, Payment Stablecoin holders, and other parties would be able to discern what requirements NCUA-Licensed PPSIs must adhere to with respect to the Reserve Assets.

Proposed § 706.202(d) would require an NCUA-Licensed PPSI with an Outstanding Issuance Value of $25 billion or more to, on each business day, maintain at least 0.5 percent of its Reserve Assets in the form of deposits and/or funds in Share Accounts at IDIs in amounts that are fully insured by the FDIC and/or NCUA, up to a cap of $500 million. While it may not be practicable to maintain all deposits and/or funds in Share Accounts so that they are fully insured by the FDIC and/or NCUA, having some minimum amount of fully insured deposits and/or funds in Share Accounts will provide an additional measure of security for Reserve Assets and can promote market and holder confidence about the integrity of Reserve Assets. Though the required minimum amount is not a large percentage, it would ensure that large NCUA-Licensed PPSIs have some stock of extremely safe and liquid assets: deposits and/or funds in Share

Accounts that are fully insured and can be withdrawn freely and that are not exposed to risks like interest rate risk. Having Reserve Assets diffused through the banking system (including the credit union system) may promote confidence by virtue of having at least some Reserve Assets held in traditional IDIs with which holders are already familiar (for example, nearby community banks and FICUs). Payment Stablecoin holders may be reassured by knowing that a minimum portion of Reserve Assets is maintained as deposits and/or funds in Share Accounts that are fully insured, and the diffusion of Reserve Assets may mitigate fears or contagion risks associated with rumors about the health of particular IDIs.

In theory, it would be ideal from the perspective of the safety and soundness of the NCUA-Licensed PPSI if PPSIs would be able to place all deposits and/or funds in Share Accounts, so they are covered by applicable deposit/share insurance limits. However, current deposit/share insurance requirements may make this impossible for larger PPSIs. While NCUA-Licensed PPSIs may use services, such as deposit/share brokers, to distribute deposits and/or funds in Share Accounts across Eligible Financial Institutions—as long as NCUA-Licensed PPSIs are able to maintain the operational capability to access and monetize these deposits and/or funds in Share Accounts—the finite number of Eligible Financial Institutions plus deposit/share insurance limits may render it impossible for larger PPSIs to insure more than a portion of their deposits and/or funds in Share Accounts. The NCUA may revisit this issue if deposit/share insurance requirements change, and the NCUA invites comments about alternative ways to address deposit/share insurance of Reserve Assets held as deposits and/or funds in Share Accounts. The NCUA recognizes the additional security that deposit/share insurance would provide for Payment Stablecoin holders and also recognizes the value of spreading deposits and/or funds in Share Accounts around a broad range of IDIs, rather than potentially having PPSI deposits and/or funds in Share Accounts concentrated at a small number of IDIs. Holding reserves at a very large number of institutions, could, however, introduce additional operational risk that a PPSI would need to manage. The thresholds in proposed § 706.202(d) balance the

value and security of spreading Reserve Assets across multiple Eligible Financial Institutions, the capacity of the banking system (and the credit union system) to hold deposits and/or funds in Share Accounts) from any one single depositor, and the operational complexity numerous depository relationships would entail.

Proposed § 706.202(e) would require the NCUA-Licensed PPSI to publish on its website by noon on the last day of each month the composition of the issuer's reserves held pursuant to the GENIUS Act as of the last day of the prior month, using a format substantially similar to the template provided in table 1 to proposed § 706.202(e). The report must contain the total number of outstanding Payment Stablecoins issued by the issuer and the amount (Fair Value) and composition of the reserves, including the average tenor and geographic location of custody of each category of reserve instruments. The information in the report, including the value of Reserve Assets, should be as of the end of the previous month. This implements the requirement in section 4(a)(1)(C) of the GENIUS Act.[151] To satisfy the geographic location requirement, the NCUA expects that it will generally be sufficient for NCUA-Licensed PPSIs to disclose the jurisdiction where Reserve Assets are custodied or located.

Proposed § 706.202(f) implements the applicable requirements of section 4(a)(3) of the GENIUS Act.[152] This provision requires PPSIs to, each month, have the information disclosed in the previous month-end report examined by a Registered Public Accounting Firm. Proposed § 706.202(f)(1) would require the examination of the previous month-end report to occur by noon on the last day of each month and would require the report to be published on the NCUA-Licensed PPSI's website at the same time as the monthly report required under proposed § 706.202(e). Consistent with the GENIUS Act, proposed § 706.202(f)(2) would require the Chief Executive Officer and Chief Financial Officer (or the Persons performing the equivalent functions) of the NCUA-Licensed PPSI to submit a certification as to the accuracy of the

[151] 12 U.S.C. 5903(a)(1)(C).
[152] 12 U.S.C. 5903(a)(3).

monthly report to the NCUA. Under section 4(a)(3)(C) of the Act,[153] any Person who submits this required certification knowing that such certification is false shall be subject to the same criminal penalties as those set forth under 18 U.S.C. 1350(c).

Proposed § 706.202(g) provides for the consequences and remedial measures if an NCUA-Licensed PPSI does not comply with the requirements of § 706.202. Proposed § 706.202(g)(1) would provide that an NCUA-Licensed PPSI must notify the NCUA on any day in which its Reserve Asset amount has fallen below the required minimum in proposed § 706.202(a). Proposed § 706.202(g)(2) would provide that an NCUA-Licensed PPSI falling below the required minimum would be barred from issuing new Payment Stablecoins until it had remediated the shortfall except as necessary to facilitate a transfer of Payment Stablecoins from one Distributed Ledger to another and provided that the net Outstanding Issuance Value does not increase. Proposed § 706.202(g)(3) would provide that, if an NCUA-Licensed PPSI fails to meet its Reserve Asset requirement for 15 consecutive business days, it must begin liquidation of Reserve Assets and redemption of outstanding Payment Stablecoins consistent with § 706.203 and may not charge Customers a fee to redeem their Payment Stablecoins at any time during the liquidation. The NCUA may extend the time period under proposed § 706.202(g)(3) in its sole discretion. Because of the importance of maintaining minimum Reserve Asset levels, the proposed rule would include automatic consequences for any non-compliance intended to prevent any concerns from developing further. This provision is intended to prevent chronic non-compliance with minimum Reserve Asset requirements. The NCUA expects to ensure compliance with other requirements in the proposed rule using traditional supervisory methods, namely having examiners identify concerns that can be escalated into enforcement actions, if necessary. Accordingly, proposed § 706.202(g)(4) provides that if at any point the NCUA determines that an NCUA-Licensed PPSI has not demonstrated that it meets the Reserve Asset requirements in proposed § 706.202(a), (b), (c), or (d), the NCUA may require the issuer to

[153] 12 U.S.C. 5903(a)(3)(C).

submit a plan describing how the PPSI will attain compliance and the timeline for the plan. If the NCUA determines, either before or after the submission of a plan, that an NCUA-Licensed PPSI faces a significant risk of being unable to attain compliance with the reserve requirements in proposed § 706.202(a), (b), (c), or (d) within a reasonable period, the NCUA may order the issuer to initiate redemption of all outstanding Payment Stablecoins. Proposed § 706.202(g)(4) also states that the NCUA's authority to require a compliance plan or order redemption does not limit the NCUA's authority to pursue other measures, including enforcement actions, if appropriate.

b. Request for Comment

The NCUA requests feedback on all aspects of the proposed rule, including:

Question 42: Section 4(a)(1)(A)(vi) of the GENIUS Act includes "securities issued by an investment company registered under section 8(a) of the Investment Company Act of 1940,[154] or other registered Government money market fund, and that are invested solely in underlying assets described in clauses (i) through (v)" as eligible Reserve Assets for Payment Stablecoins issued by PPSIs. However, many or all Government money market funds are investment companies registered under section 8(a) of the Investment Company Act of 1940. Should the provision relating to securities issued by investment companies registered under section 8(a) of the Investment Company Act, or other registered Government money market funds, be clarified? Does section 4(a)(1)(A)(vi) permit securities issued by investment companies registered under section 8(a) of the Investment Company Act of 1940 that are not Government money market funds to be Reserve Assets for Payment Stablecoins issued by PPSIs? Are there any registered Government money market funds that are not investment companies registered under section 8(a) of the Investment Company Act? Does section 4(a)(1)(A)(vi) permit securities issued by registered Government money market funds that are not registered under section 8(a) of the Investment Company Act to be Reserve Assets for Payment Stablecoins issued by PPSIs?

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[154] 15 U.S.C. 80a-8(a).

Question 43: Should the provisions relating to repurchase agreements and reverse repurchase agreements be clarified? For example, should the NCUA provide that deposits and funds in Share Accounts can serve as collateral for repurchase agreements? If so, what limitations, if any, should the NCUA include with respect to the use of deposits and funds in Share Accounts as collateral?

Question 44: Should the proposed rule require a buffer or impose haircuts on certain Reserve Assets to ensure that Reserve Asset values do not fall below Outstanding Issuance Values? The GENIUS Act requires PPSIs to maintain identifiable reserves "on an at least 1 to 1 basis." What measures should the proposed rule include to ensure that issuers are able to maintain this minimum? Without a buffer or other measures, the Fair Value of a PPSI's Reserve Assets could fall below the required minimum if there are, for example, sudden increases in interest rates. While proposed § 706.204(a)(3)(i) would include a requirement to manage interest rate risk, should there be a more express requirement for a buffer (for example, 1% of Reserve Assets)? For example, the proposed rule could require PPSIs to maintain an amount of Reserve Assets sufficient to stay above the Outstanding Issuance Value in light of risks facing the PPSI, including interest rate risk and risks associated with the capability to access and monetize Reserve Assets. Are there other considerations the NCUA should take into account if it chose to calibrate such a buffer? As an alternative to requiring such a buffer, should the NCUA provide guidance on what level of buffer is generally appropriate as a matter of prudent risk management?

Question 45: Should the NCUA expressly require that a certain percentage of Reserve Assets be held in custody either at an Affiliate or at a third party? What are the potential costs and benefits of this approach, including with respect to operational risk?

Question 46: Is the term "deposits and/or funds in Share Accounts payable upon demand" sufficiently clear? If not, how should the NCUA clarify the term (*i.e.,* what types of accounts should expressly be included within the term)?

Question 47: Should the proposed rule define "reserve in tokenized form", to enhance clarity regarding proposed § 706.202(b)(8)? If so, should the NCUA define "reserve in tokenized form" to refer to a Digital Asset, as defined in proposed § 706.2, that represents another asset and provides full legal rights to that underlying asset? What modifications to this definition or the rule's related terminology would enhance clarity?

Question 48: In the provision in proposed § 706.202(b)(5) regarding reverse repurchase agreements, is the proposed rule sufficiently clear in its reference to "overcollateralization in line with standard market terms?" If not, what clarifications would be appropriate?

Question 49: Should the NCUA provide additional detail on what securities could be in scope for "any other similarly liquid Federal Government-issued asset" under § 706.202(b)(7)? For example, should Treasury securities with remaining maturity of two years or less be permitted under § 706.202(b)(7)? What would be the implications for liquidity or interest rate risk of allowing these types of securities to be held as Reserve Assets? If the NCUA were to permit two-year Treasury securities to be used as Reserve Assets, should the NCUA impose any additional requirements, such as requiring the weighted average maturity of Treasury securities held as reserves to be no more than 93 days (or some shorter timeframe) or requiring additional Reserve Asset diversification requirements (*e.g.,* minimum amount of Reserve Assets held as deposits and/or funds in Share Accounts or minimum number of Eligible Financial Institutions holding the PPSI's Reserve Assets) for PPSIs that hold Treasury securities with a remaining maturity between 94 days and two years?

Question 50: Should the proposed rule clarify that Treasury Floating Rate Notes (FRNs) and Treasury Inflation-Protected Securities (TIPs) be included as permissible Reserve Assets, assuming they otherwise meet the requirements of the proposed rule, including maturity requirements? Is there any reason these securities should be excluded? Should Treasury Separate Trading of Registered Interest and Principal of Securities (STRIPS) be included? Are there other instruments that should be considered as included within the GENIUS Act's phrase "Treasury

bills, notes, or bonds"? If these securities are included, should there be additional requirements—for example, both weighted average life and weighted average maturity limits to accommodate interest rate resets in FRNs?

Question 51: Should the proposed rule's requirements for Reserve Assets incorporate requirements to reflect potential interactions with the larger market for Treasury securities? For example, should the proposed rule include requirements to prevent any disruptive or negative effects that the management or liquidation of Treasury Reserve Assets might have on markets?

Question 52: The proposed rule would, consistent with the GENIUS Act, allow as Reserve Assets funds held as deposits and/or in Share Accounts) that are payable upon demand at an IDI (including any foreign branches or agents, including correspondent banks). Should the proposed rule add definitions for these terms to make them clearer or impose restrictions on the use of foreign branches or agents and correspondent banks? For example, should the proposed rule require that Payment Stablecoins denominated in United States dollars only be backed by deposits and/or funds in Share Accounts that are payable upon demand at U.S.-based IDIs (*i.e.,* Reserve Assets could not include Eurodollar deposits)? Should the NCUA include any additional requirements with respect to Reserve Assets held abroad, such as applying a haircut to the reserve assets, imposing a capital charge, or including additional policies and procedures to manage the risks associated with holding Reserve Assets abroad?

Question 53: Should the NCUA develop a formal process to consider and approve securities under § 706.202(b)(7)? Should the NCUA allow PPSIs or other parties to request that the NCUA consider a specific type of security? Should any determinations on additional securities approved under this authority be made public?

Question 54: The proposed rule would require a PPSI to maintain Reserve Assets, the Fair Value of which must equal or exceed the Outstanding Issuance Value at all times. Should the NCUA impose a different standard, such as requiring the Fair Value of Reserve Assets to

equal or exceed the Outstanding Issuance Value at the end of each day or at the end of each business day?

Question 55: The proposed rule's requirements for Reserve Asset diversification and concentration include two options: (1) a flexible, principles-based baseline requirement plus a quantitative safe harbor or (2) quantitative requirements applicable to all PPSIs. Which option is more appropriate? How should either option, including the quantitative limits included in each option, be modified? For example, should the requirement or safe harbor's provision regarding holding Reserve Assets as deposits and/or funds in Share Accounts payable upon demand or Money standing to the credit of an account with a Federal Reserve Bank be set at five percent, 10 percent, 15 percent or 20 percent? Should this requirement be set at a different percentage (*e.g.,* 10 percent) for small issuers and a larger percentage (*e.g.,* 15 percent) for larger issuers? Should the requirement or safe harbor's provision regarding maintaining Reserve Assets as deposits and/or funds in Share Accounts payable upon demand, Money standing to the credit of an account with a Federal Reserve Bank, or amounts receivable and due unconditionally within five business days on pending sales of Reserve Assets or other maturing transactions be set at 20 percent, 25 percent, or 30 percent? Are the proposed maxima for various types of Reserve Assets that may be held at an Eligible Financial Institution appropriately calibrated? Would a shorter or longer weighted average maturity be appropriate? Should larger issuers have a shorter weighted average maturity requirement than smaller issuers? If the final rule includes quantitative requirements for all PPSIs, should there be additional risk management requirements to ensure that PPSIs appropriately manage diversification and concentration risk? In particular, the risk management requirements could include a requirement that PPSIs must measure and manage the risk that their gross exposure to any one institution or a small number of institutions may impair their ability to satisfy redemption demands.

Question 56: The Reserve Asset diversification and concentration limits in proposed § 706.202(c) would not distinguish reserve assets held at Federal Reserve Banks and would

therefore include requirements (or conditions of a safe harbor) that would limit the reserve assets held at any one Federal Reserve Bank. In light of the low credit risk associated with Federal Reserve Banks, should the final rule eliminate these requirements or conditions? Specifically, should the NCUA exempt reserve assets held at a Federal Reserve Bank from the conditions in § 706.202(c)(2)(iii) and § 706.202(c)(2)(iv) of Option A and the requirements in § 706.202(c)(3) and §706.202(c)(4) of option B?

Question 57: The Reserve Asset diversification and concentration limits in proposed § 706.202(c) would limit the Reserve Assets, including deposits and/or funds in Share Accounts payable upon demand, at any one Eligible Financial Institution. Should there be an exception to some or all of these requirements for a subsidiary of an NCUA-regulated FICU approved to be a PPSI if the NCUA-regulated FICU has less than a certain amount of total assets? Should the exception be limited to or tailored for Reserve Assets at a Parent Company FICU? For example, should a PPSI that is a subsidiary of an NCUA-regulated FICU Parent Company with less than a certain amount of total assets be permitted to hold a larger percentage, or all, of its Reserve Assets as deposits and/or funds in Share Accounts at the NCUA-regulated FICU Parent Company? Should any such exception be subject to any conditions? For example, should it only be available if the NCUA-regulated FICU is well-capitalized?

Question 58: Option A for proposed § 706.202(c) would require that a PPSI must maintain Reserve Assets that are sufficiently diverse to manage potential credit, liquidity, interest rate, or price risks. Are there other risks that should be added to this list, or removed from it? If the final rule adopts mandatory quantitative diversification and concentration requirements, should the requirement to monitor and manage these risks be codified as a separate risk management requirement?

Question 59: The NCUA invites comment on the extent to which additional diversification requirements are necessary. Is it necessary to require that PPSIs maintain more

than one type of Reserve Asset? Would it be sufficient for the NCUA to require that PPSIs maintain only one secondary, backup Reserve Asset?

Question 60: To diversify the maturity profile of Reserve Assets, should PPSIs be required to maintain a minimum amount of their Reserve Assets in cash or equivalents or assets that can be converted more readily into short-term liquidity, for example within a daily or weekly timeframe, akin to the requirements for money market funds in SEC Rule 2a-7?

Question 61: Should the proposed rule include other measures to encourage Reserve Assets to be held in the form of fully insured deposits and/or Share Accounts? Proposed § 706.202(d) would include a requirement for larger PPSIs to maintain a minimum percentage of assets as fully insured deposits and/or Share Accounts. While it may be difficult for larger PPSIs to hold reserve assets as fully insured deposits and/or Share Accounts due to deposit and share insurance limits and the finite number of IDIs in the United States, should PPSIs be required to hold some minimum amount of reserves as fully insured deposits and/or Share Accounts) in order to provide extra protection for Payment Stablecoin holders? Should the thresholds in proposed § 706.202(d) be set at different levels: for example, apply to issuers with an Outstanding Issuance Value of $1 billion, $10 billion, $50 billion, or $100 billion or more? Should covered larger issuers be required to maintain a smaller or larger percentage of Reserve Assets as fully insured deposits and/or Share Accounts (for example, 0.1 percent, 0.25 percent, 1 percent, or 2 percent)? Should the cap be higher or lower (for example, $100 million, $250 million, or $1 billion)?

Question 62: How should the NCUA calibrate the fully insured deposit and/or Share Account) requirement for PPSIs? Should it be as a percentage of assets or an absolute number? If a percentage, what percentage should that be? If an absolute number, what should that be? Should there be a cutoff for PPSIs above or below a certain size threshold that should be required to place fully insured deposits and/or Share Accounts? If so, why? What would be the implications of such a cutoff? What is the total amount of fully insured Payment Stablecoin

deposits and/or funds in Share Accounts that the banking system in the United States can or should reasonably absorb? What is the total amount of fully insured deposits and/or funds in Share Accounts that an individual community bank or FICU is likely to hold?

Question 63: There are approximately 4,380 total insured banks and 4,287 FICUs in the United States. Should the proposed rule include other measures to spread insured Payment Stablecoin deposits and Share Accounts throughout the banking and credit union systems? If so, how broadly should insured deposits and funds in Share Accounts from PPSIs be distributed? For example, should the final rule be calibrated to maximize the number of banks and FICUs in the United States that could hold some amount of insured Deposits and Share Accounts from PPSIs if consistent with their risk appetite and risk management abilities? If so, why? If not, why not?

Question 64: Deposit/share placement services could be used to facilitate compliance with these diversification requirements, as long as PPSIs are able to maintain the operational ability to access the deposits and/or funds in Share Accounts, consistent with proposed § 706.202(a). Please describe any risks associated with using such services or other intermediaries and how PPSIs could best mitigate these risks.

Question 65: Could Reserve Asset diversification requirements that encourage diffusion of deposits and funds in Share Accounts cause risks to the banking and credit union systems (for example, increasing run risks at banks and FICUs or replacing more stable deposits and funds in Share Accounts with deposits and funds in Share Accounts that are more likely to be withdrawn quickly and in large volumes)? Could such diversification requirements raise operational risks for PPSIs, FICUs, or banks? How difficult would it be for PPSIs to liquidate such deposits and funds in Share Accounts in a stressed environment? If deposit and share insurance rules change, so that even larger PPSIs could be able to hold all their required deposits and or funds in Share Accounts as fully insured, should all deposits and funds in Share Accounts held as Reserve Assets be required to be insured?

Question 66: Should the proposed safe harbor (or alternatively, the liquidity requirements directly) require a PPSI to maintain at least 20 percent of required Reserve Assets at IDIs with less than $30 billion in total assets (either directly or indirectly through a deposit/share broker)? Would such an approach help ensure appropriate Reserve Asset diversification, particularly as these smaller IDIs are unlikely to be counterparties to the PPSI in repurchase agreements or reverse repurchase agreements?

Question 67: How would the proposed rule affect the amount of deposits and funds in Share Accounts maintained in the United States banking and credit union systems? Would the proposed rule reduce the number of deposits and funds in Share Accounts maintained in the United States banking and credit union system and therefore affect the ability of United States banks and credit unions to lend? What, if any, measures should the proposed rule include to mitigate such concerns? Should the proposed rule include a minimum percent of Reserve Assets as deposits and/or funds in Share Accounts in order to offset potential reductions in overall levels of deposits and funds in Share Accounts?

Question 68: One option in the proposed rule would include flexible baseline diversification and concentration requirements, coupled with an optional quantitative safe harbor. Should the default requirement for PPSIs include quantitative limits for Reserve Asset diversification? For example, the NCUA could impose quantitative limits on the maximum amount of uninsured deposits and/or uninsured funds in Share Accounts payable upon demand that PPSIs can maintain with a single IDI, in addition to any restrictions imposed by the FDIC and NCUA pursuant to separate authority under the GENIUS Act. PPSIs might be required to maintain no more than a specified percentage (for example, one percent, five percent, or 10 percent) as uninsured deposits and/or uninsured funds in Share Accounts payable upon demand at a single IDI. Examples of other quantitative limits could include the following.

- Minimum cash limits, such as a minimum amount of Money standing to the credit of an account of a Federal Reserve bank plus deposits and/or funds in Share Accounts payable

upon demand as a percentage of operating expenses for a specific period, as a percentage of total Reserve Assets, or as a percentage of modeled stress cash outflows (for example, 10 percent or 15 percent);

- Minimum amount of assets maturing daily, weekly, or over some other time period (for example, assets available on demand or maturing weekly must constitute 20 percent of Reserve Assets);
- Counterparty diversification limits, such as maximum credit exposure to repo or reverse repo counterparties; and
- Limitations on tokenized forms of Reserve Assets under proposed § 706.202(b)(8), such as limiting the amount to no more than a certain percentage (*e.g.,* 20 percent) of a PPSI's total Reserve Assets.

What other limits should be considered? Such requirements could be tailored according to size; for example, larger and more complex PPSIs may be required to adhere to more stringent diversification and concentration requirements.

Question 69: Should the NCUA adopt the proposed safe harbor option (Option A) for proposed § 706.202(c)? Does the proposed safe harbor adequately address differences in business models, while addressing risks associated with asset concentration? Should the proposed safe harbor include different quantitative thresholds? What other features should the safe harbor incorporate, if adopted?

Question 70: Should the NCUA adopt any other restrictions on Reserve Asset concentration? If so, should they be based on gross exposures to particular counterparties? Or should the restrictions be more prescriptive? For example, should the rule prohibit a PPSI from entering into a reverse repurchase agreement with any counterparty that holds deposits and/or funds in Share Accounts that serve as Reserve Assets for the PPSI? Are the Reserve Asset concentration requirements appropriately calibrated? Should the NCUA require that no more

than 5, 10, or 15 percent of a PPSI's Reserve Assets may be deposits or funds in Share Accounts at a single IDI?

Question 71: Should the NCUA's concentration requirements include requirements to not have more than a specified portion of Reserve Assets at a single custodian? Would this requirement impose undue burden? For example, would requiring the use of more than one Eligible Financial Institution as custodian of Treasury securities and collateral for reverse repurchase agreements impose undue burden or complexity on the management of Reserve Assets? What are the costs and benefits of such an approach, including from an operational risk perspective?

Question 72: Should the proposed rule include measures to ensure that a PPSI is not overly reliant on short-term lending transactions to meet immediate liquidity needs? In the absence of such a restriction, a PPSI hypothetically might maintain a Reserve Asset portfolio entirely of Treasury securities and rely on overnight repo transactions to generate the daily liquidity amounts required by the proposed rule. This arrangement could leave the PPSI vulnerable to disruptions in repo markets. Should the proposed rule require excluding short-term repayment obligations from daily and weekly liquidity? For example, the proposed rule could require, for daily liquidity, deducting payments due on overnight borrowings and, for weekly liquidity, deducting any payments due within the next five business days? If such a restriction is included, should repayment deductions be offset by any expected inflows?

Question 73: Consistent with the GENIUS Act, the proposed rule would allow physical currency, including coins, to serve as Reserve Assets. Nevertheless, given the limitations on transferring physical currency, particularly difficulties that may arise in deploying physical currency quickly to meet sudden demands for redemptions, should the proposed rule impose limits on how much physical currency can serve as Reserve Assets? For example, the proposed rule could require that physical currency constitute no more than 5 percent or 10 percent of a PPSI's Reserve Assets. Should the proposed rule impose special requirements to make sure that

physical currency is safeguarded (for example, against theft or fire)? For example, should there be periodic verification or inspection requirements for physical currency used as Reserve Assets?

Question 74: The proposed rule would generally require Reserve Assets to be valued at Fair Value for the purpose of determining compliance with the proposed rule's Reserve Asset requirements. Should United States coins and currency be required to be valued at par for purposes of the proposed rule's Reserve Asset requirements?

Question 75: Should the proposed rule include special limits on Treasury bonds and notes that may be more thinly traded and therefore more likely to sell at a discount? The GENIUS Act would allow PPSIs to hold as Reserve Assets Treasury notes and bonds so long as they have a maturity of 93 days or less. Older and off-the-run Treasury securities may be more difficult to sell and may only be marketable at a discount.[155] Should the proposed rule limit the portion of Reserve Assets that Treasury bonds and notes can comprise—for example, 20 percent of total Reserve Assets?

Question 76: Should the final rule specify the manner in which PPSIs must "measure and manage" credit, liquidity, interest rate, price risk, and concentration risk under proposed § 706.202(c)? For example, should the NCUA adopt related record retention or other requirements?

Question 77: Should the proposed rule include special measures to ensure that reverse repurchase agreements are appropriately overcollateralized? Proposed § 706.202(b)(5) would permit the inclusion, as Reserve Assets, of reverse repurchase agreements "subject to overcollateralization in line with standard market terms." As one possibility, the proposed rule could include no special measures, and the examination and supervision process could be used to evaluate if particular PPSIs are failing to overcollateralize their reverse repurchase agreements in line with standard market terms. As another possibility, the proposed rule could include more

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[155] *See* Dimitri Vayanos & Jiang Wang, "Market Liquidity—Theory and Empirical Evidence," National Bureau of Economic Research Working Paper 18251 (July 2012), *available at* https://www.nber.org/system/files/working_papers/w18251/w18251.pdf.

express requirements, for example, that overcollateralization haircuts cannot be less than 0.5 percent.

Question 78: Should PPSIs be required to conduct stress tests, including stress tests to manage liquidity and interest rate risks? The GENIUS Act permits the inclusion of bilateral reverse repurchase agreements as Reserve Assets "with [counterparties] that the issuer has determined to be adequately creditworthy even in the event of severe market stress." How should issuers evaluate the impact of "severe market stress"? Should diversification requirements be based on the outcome of any stress tests? For example, PPSIs could be required to maintain a minimum amount of readily available Reserve Assets (for example, deposits and/or funds in Share Accounts that are payable upon demand and reserve balances) based on the results of liquidity stress tests? In particular, PPSIs could be required to maintain—or could elect to maintain as part of the proposed safe harbor—an amount of readily available Reserve Assets at least sufficient to meet outflow levels predicted by an internal liquidity stress test.

Question 79: Should PPSIs be required to adopt written plans or policies and procedures related to liquidity planning? For example, should PPSIs be required to adopt their own concentration restrictions, including limits on deposit and Share Account concentrations at IDIs, that are tailored to their own business model, operations, and risk profile? Similarly, should PPSIs be required to adopt liquidity management plans, which would include provisions to assign responsibility for liquidity risk management and address contingency funding needs?

Question 80: Subclause 4(a)(1)(A)(i) of the GENIUS Act provides that reserve assets can include "money standing to the credit of an account with a Federal Reserve Bank."[156] Should diversification requirements include special measures for reserve bank balances if PPSIs are able to maintain them?

Question 81: Should the liquidity management standards in proposed part 706 change depending on the standards for timely redemption? For example, should the rule require less

[156] 12 U.S.C. 5903(a)(1)(A)(i).

stringent liquidity standards (for example, less readily available funds required) if PPSIs have a longer time to redeem tendered Payment Stablecoins?

Question 82: Should the proposed rule include additional measures to address de-pegging in the secondary market? For example, should the proposed rule bar a PPSI from issuing new Payment Stablecoins if a PPSI's Payment Stablecoins trade in secondary markets at some price that is a set amount less than par (*e.g.,* trading at or below $0.99, $0.80 or some other amount) for some sustained period of time (*e.g.,* 24 hours)?

Question 83: For purposes of incorporating "average tenor and geographic location of custody of each category of reserve instruments" in the composition report required under § 706.202(e), what, if any, specific content and structure should the NCUA require? For example, should the report include information about deposit and Share Account concentration and CUSIPs of securities? Should the required content include the composition of the Reserve Assets by type of assets and maturities and by counterparty issuer? For purposes of stating the geographic location of custody, should it suffice to state the country of custody? Or should more granular information be required? Should the NCUA require that the composition report conform to the specified template? Are there specific methods for calculating tenor that the rule should require or explicitly permit? For example, should the rule define average tenor as the weighted average maturity or life of the asset? Should the monthly composition report require the issuer to distinguish between insured and uninsured deposits and funds in Share Accounts?

Question 84: Are there any additional steps that the NCUA should take to encourage transparency while minimizing burden with respect to the Reserve Asset composition report?

Question 85: What modifications to the reporting requirements, including the Reserve Asset composition report, would be appropriate for arrangements where one issuer issues multiple Payment Stablecoins under different brands (*e.g.,* white label arrangements), if that arrangement is permitted in the final rule? Are there any additional disclosures that the issuer should provide in order to ensure that the report is not misleading?

Question 86: Should the report be required to list and name any IDIs holding Reserve Assets? Should the report be required to list and name other Eligible Financial Institutions holding Reserve Assets? Should the proposed rule include additional measures to ensure that Reserve Assets are appropriately traceable and linked to their corresponding Payment Stablecoin so as to avoid any difficulties in resolving claims to Reserve Assets?

Question 87: For purposes of the composition report and reserves in tokenized form, should the PPSI be required to disclose the location of custody of both the reserve instrument in tokenized form on a ledger and any real-world asset that the reserve in tokenized form represents? What related reporting requirements would be appropriate?

Question 88: Should the values and information in the monthly report be required to be as of a particular date or time? Alternatively, should PPSIs publish on their websites a report showing the real-time values of the items required in the monthly composition report? Having the most recent information will make the more report more useful, and the NCUA invites comment on how much real-time reporting is feasible and whether it may only be feasible for certain items. Should the monthly report be required to include both month-end figures (for the previous month) and some information that can be presented in real-time (for example, the value of reserves or Outstanding Issuance Value)? Are there potential challenges in providing assurance over real-time information presented in a monthly report?

Question 89: Should the NCUA require PPSIs to publish the monthly certification on their websites, in addition to publishing the monthly Reserve Asset composition report? Should the NCUA specify the content and form of the certification?

Question 90: Should the monthly composition report be published at some point before the examination by a Registered Public Accounting Firm? For example, a PPSI could publish the report five days after the end of the previous month and have the report examined 30 days after the end of the previous month and disclose any discrepancies uncovered by the examination. Would the benefits of more timely availability of these reports outweigh the potential costs

associated with the risk of subsequent changes as a result of the examination that would be completed at a later date?

Question 91: Is the requirement in proposed § 706.202(f) to have information disclosed in the previous month-end report examined by a Registered Public Accounting Firm sufficiently clear? If not, what additional clarity should the NCUA provide with respect to the examination by a Registered Public Accounting Firm? Should the examination be performed at the "reasonable assurance" level or at some other standard? What additional standards, if any, should the NCUA apply to ensure that the examination is accurate and appropriate? Should the engagement letter between the PPSI and the Registered Public Accounting Firm require the Registered Public Accounting Firm to attest to whether the PPSI is in compliance with the Reserve Asset requirements in § 706.202 (or a subset thereof), based on the information available to the Registered Public Accounting Firm? What criteria should be used for the examination? Would assurances from the management of the PPSI regarding the information in the issuer's weekly or monthly report be sufficient? If not, what other criteria should be included?

Question 92: Should PPSIs be required to monitor the financial condition of Eligible Financial Institutions holding Reserve Assets? Should the financial condition of an Eligible Financial Institution holding an issuer's Reserve Assets be considered in whether issuers have met their deposit and/or funds in Share Account concentration obligations?

Question 93: Are there additional considerations that the NCUA should take into account with respect to proposed § 706.202(g)(1), including whether it is appropriate that the PPSI must not issue new Payment Stablecoins until it remediates a shortfall in Reserve Assets? For example, should there be some period of time (*e.g.,* one or two days) where an issuer should be able to issue Payment Stablecoins despite a shortfall? Is the requirement in § 706.202(g)(3) set appropriately at 15 days or should the period be longer or shorter (*e.g.,* 5 days, 10 days, 20 days, 25 days, 30 days)?

Question 94: Should the proposed rule include restrictions on expenses that may be charged against Reserve Assets? Is it worth making clear that PPSIs may not charge general corporate expenses against Reserve Assets? While there may be a narrow set of expenses that can be paid from Reserve Assets (for example, interest on a repurchase agreement or fees paid to an investment company holding Reserve Assets), the NCUA expects that paying most other expenses from Reserve Assets would be inconsistent with the requirement for PPSIs to maintain identifiable Reserve Assets backing Outstanding Issuance Value on a 1 to 1 basis and the rehypothecation prohibitions.

3. § 706.203. Redemption

a. Proposed § 706.203

Section 706.203 of the proposed rule addresses redemption requirements imposed by section 4(a)(1)(B) of the GENIUS Act.[157] Consistent with the statute, under proposed § 706.203(a), an NCUA-Licensed PPSI must publicly disclose its current redemption policy.[158] The NCUA proposes that in disclosing its redemption policy, the NCUA-Licensed PPSI must include, at a minimum, certain information. Specifically, proposed § 706.203(a)(1) provides that the NCUA-Licensed PPSI must include a timeframe in which the PPSI will redeem Payment Stablecoins and the timeframe under which the issuer is required to redeem Payment Stablecoins (which, under proposed paragraph § 706.203(b)(1)(i) may not exceed two business days following the date of the requested redemption). In proposed § 706.203(a)(2), the NCUA proposes to require the issuer to include a statement consistent with proposed § 706.203(b)(1)(ii) that any discretionary limitations on timely redemptions can only be imposed by the NCUA. Proposed § 706.203(a)(3) requires that NCUA-Licensed PPSIs include in their redemption disclosures a statement explaining the scenarios when the redemption period may be extended as

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[157] 12 U.S.C. 5903(a)(1)(B).

[158] Under section 2(22) of the GENIUS Act (12 U.S.C. 5901(22)), the issuer of a Payment Stablecoin must be obligated to convert, redeem, or repurchase a Payment Stablecoin for a fixed amount of Monetary Value, not including a Digital Asset denominated in a fixed amount of Monetary Value.

provided for in proposed § 706.203(c). Proposed § 706.203(a)(4) provides that the NCUA-Licensed PPSI must provide a statement with clear instructions on how a Payment Stablecoin holder can redeem a Payment Stablecoin, including a link to the website(s) where a Customer can redeem the Payment Stablecoin. Proposed § 706.203(a)(5) would require the issuer to specify the minimum number of Payment Stablecoins, if any, that the NCUA-Licensed PPSI will redeem, provided that the issuer must redeem any number greater than or equal to one Payment Stablecoin, subject to appropriate Customer screening and onboarding. In setting the requirement that an NCUA-Licensed PPSI must redeem any number greater than or equal to one Payment Stablecoin, the NCUA is relying on a natural reading of the definition of "payment stablecoin." Specifically, section 2(22) of the GENIUS Act defines "payment stablecoin" as a Digital Asset that an issuer "is obligated to convert, redeem, or repurchase for a fixed amount of monetary value."[159] Since "payment stablecoin" is singular, the statutory language suggests that while an issuer could set a minimum redemption threshold at a fraction of a Payment Stablecoin, an issuer must redeem any number greater than or equal to one Payment Stablecoin to comply with the GENIUS Act. Otherwise, the Payment Stablecoin would not be redeemable for a fixed amount of Monetary Value.

Proposed § 706.203(b)(1) provides that an NCUA-Licensed PPSI's redemption policy must provide clear and conspicuous procedures for timely redemption of outstanding Payment Stablecoins. In proposed § 706.203(b)(1)(i), the NCUA is proposing to define "timely" to mean that the NCUA-Licensed PPSI would have to redeem a Payment Stablecoin no later than two business days following the date of the requested redemption. The NCUA is proposing this two-business day time frame as an outer limit on when an NCUA-Licensed PPSI must redeem a Payment Stablecoin and understands that many issuers may choose a time frame that is less than two business days. The NCUA believes this time frame provides sufficient responsiveness to Payment Stablecoin holders who seek to redeem their Payment Stablecoins, while also ensuring

[159] 12 U.S.C. 5901(22).

that PPSIs can appropriately manage liquidity demands. Proposed § 706.203(b)(1)(ii), consistent with the statute, provides that discretionary limitations on timely redemptions can only be imposed by the NCUA.[160]

Proposed § 706.203(c)(1) would provide that the period for timely redemption is extended to seven calendar days if an NCUA-Licensed PPSI faces redemption demands in excess of 10 percent of its Outstanding Issuance Value in a single 24-hour period. The NCUA proposes to use a 24-hour period for this requirement in recognition of the likelihood that there may be significant demands to redeem Payment Stablecoins outside of normal business hours and outside of the hours when many Reserve Assets could be liquidated. As provided for in proposed § 706.203(c)(2), the extended redemption period applies to all redemption requests that are outstanding at the time the 10 percent threshold is met as well as any subsequent redemption requests following the time the threshold is met. Proposed § 706.203(c)(3) clarifies that the extension is non-discretionary and that an NCUA-Licensed PPSI may only redeem any of the outstanding or subsequent redemption requests prior to the seven calendar day period if the NCUA determines that the issuer has the ability to redeem sooner in an orderly fashion and through a fair and transparent process or the NCUA otherwise provides notice to the NCUA-Licensed PPSI that the extended redemption period no longer applies. The NCUA expects that the NCUA-Licensed PPSI seeking to redeem sooner than the seven calendar day period will

[160] The NCUA notes that section 4(a) of the GENIUS Act (12 U.S.C. 5903(a)) establishes standards for the issuance of Payment Stablecoins applicable to all PPSIs. Section 4(a)(1)(B) requires all PPSIs to publicly disclose their redemption policy. Section 4(a)(1)(B)(i) requires that that redemption policy "establish clear and conspicuous procedures for timely redemption of outstanding payment stablecoins[.]" Section 4(a)(1)(B)(i) further provides that "any discretionary limitations on timely redemptions can only be imposed by a State qualified payment stablecoin regulator, the Corporation, the Comptroller, or the Board, consistent with section 5906 of this title[.]" The NCUA is not expressly listed in this list of regulators that can impose discretionary limitations on timely redemption. However, based on the structure of section 4, and 4(a)(1) in particular, the NCUA believes that a PPSI subject to the NCUA's jurisdiction must also be subject to any discretionary limitations on timely redemptions imposed by the NCUA. Further, section 5(c)(4) requires the NCUA to evaluate "whether the redemption policy of the applicant meets the standards under section [4(a)(1)(B)] section 5903(a)(1)(B)" in granting an NCUA PPSI license to an issuer. Finally, the NCUA also believes the NCUA's authority to impose such discretionary limitations on redemptions is inherently provided for by the NCUA's authority as a primary Federal payment stablecoin regulator of PPSIs that are FICU subsidiaries under section 2(25)(B) of the GENIUS Act (12 U.S.C. 5901(25)(B)) and the NCUA's supervision and enforcement authority over PPSIs that are FICU subsidiaries provided in section 6 of the GENIUS Act (12 U.S.C. 5905).

engage with the NCUA to provide evidence that it can redeem in an orderly fashion and through a fair and transparent process that does not unfairly advantage some Payment Stablecoin holders relative to other Payment Stablecoin holders. Under proposed § 706.203(c)(4), an NCUA-Licensed PPSI that exceeds that 10 percent threshold would be required to provide notice to the NCUA within 24 hours. Using this 24-hour time period will provide appropriate notice to the NCUA and allow an appropriate amount of time to facilitate the orderly liquidation of Reserve Assets. These provisions are intended to facilitate the orderly liquidation of sufficient Reserve Assets in the event of a spike in redemption requests and would help ensure financial stability by lowering the potential price impact of a sudden liquidation of Reserve Assets. Proposed § 706.203(c)(5) provides that the NCUA, may in its discretion, extend timely redemption described in proposed § 706.203(b)(1) or (c)(1), as applicable, if the NCUA determines that the NCUA-Licensed PPSI poses a threat to safety and soundness, financial stability, or such an extension is otherwise in the public interest.

The requirements of this section apply only to the redemption of a Payment Stablecoin by the NCUA-Licensed PPSI (and any entity acting on behalf of the PPSI) and would not apply to secondary market trading. This section is not intended to prevent NCUA-Licensed PPSIs from establishing criteria related to the participants with which PPSIs will interact.

Proposed § 706.203(d)(1) provides that an NCUA-Licensed PPSI must also publicly, clearly, and conspicuously disclose in plain language and in format that is readily noticeable to Customers, readily understandable by Customers, and segregated from other information: (i) the name of the NCUA-Licensed PPSI that issues the Payment Stablecoin; (ii) that the NCUA-Licensed PPSI is the entity that is obligated to convert, redeem, or repurchase the Payment Stablecoin for a fixed amount of Monetary Value; (iii) the link to the monthly composition report of the relevant NCUA-Licensed PPSI's reserves as required under proposed § 706.202(e); and (iv) all fees associated with purchasing or redeeming Payment Stablecoins. The NCUA is including a requirement that the disclosures under proposed § 706.203(d)(1) are readily

noticeable by Customers, readily understandable by Customers, and segregated from other information to provide more certainty on what it means to "publicly, clearly, and conspicuously disclose [the information] in plain language."[161] The NCUA is proposing to include the requirement that the disclosures be segregated from other information to ensure that the information in the disclosures is not combined with other non-relevant information that could obscure the importance of these disclosures. Although the NCUA-Licensed PPSI may include additional information beyond what is required in proposed § 706.203(d)(1) in the same disclosure, the information required under proposed § 706.203(d)(1) should be sufficiently separate and must meet the other requirements outlined, including that the information is readily noticeable and readily understandable by Customers. The NCUA believes that the disclosures required under proposed § 706.203(d)(1) are consistent with section 4(a)(1)(B) of the GENIUS Act[162] and are particularly important in the situation where an NCUA-Licensed PPSI issues more than one brand of Payment Stablecoin either directly or through an Affiliate (if the NCUA limits NCUA-Licensed PPSIs to issuing a single brand of Payment Stablecoin). The NCUA believes that these disclosures are necessary to prevent confusion and ensure that Payment Stablecoin holders understand who has the ultimate obligation to redeem their Payment Stablecoin.

Proposed § 706.203(d)(2) provides that an NCUA-Licensed PPSI must update the disclosures in proposed § 706.203(d)(1)(iv) if there are any changes in the fees associated with purchasing or redeeming Payment Stablecoins and provide Customers at least seven calendar days' prior notice of the change, including by securely delivering the notice to current Customers. Proposed § 706.203(d)(3) provides that an NCUA-Licensed PPSI must publish the disclosures in proposed § 706.203(d)(1) and any updates made in accordance with proposed § 706.203(d)(2) on the NCUA-Licensed PPSI's website. Proposed § 706.203(d)(4) provides that an NCUA-Licensed PPSI must include the disclosures in proposed § 706.203(d)(1) and any

[161] 12 U.S.C. 5903(a)(1)(B)(ii).
[162] 12 U.S.C. 5903(a)(1)(B).

updates made in accordance with proposed § 706.203(d)(2) in any Customer agreements that it provides.

b. Request for Comment

The NCUA requests feedback on all aspects of the proposed rule, including:

Question 95: Has the NCUA appropriately defined "timely" for purposes of redemption in proposed § 706.203(b)(1)(i) as not exceeding two business days? If not, what may be a more appropriate time frame? For example, should the NCUA consider other time frames ranging from one calendar day to seven calendar days timely? Should the NCUA consider some timeframe longer than seven calendar days timely? Should the NCUA define "timely" in a manner that scales with the liquidity of the underlying Reserve Assets or other factors? How should any definition of "timely" appropriately balance considerations of price stability and run risk?

Question 96: Should the NCUA include a safe harbor for failing to timely redeem a Payment Stablecoin in certain circumstances that may be outside of the PPSI's control (*e.g.,* disruptions to payment or banking systems for which the PPSI is not responsible)?

Question 97: Should the NCUA consider a longer redemption period "timely" in times of stress? If so, how long should the NCUA extend the redemption period and what metrics and data should the NCUA look to in order to determine whether an extension is warranted? For example, in the proposed rule, if a PPSI faced redemption demands in excess of 10 percent of its Outstanding Issuance Value over one day, the time period for timely redemption is generally extended to seven calendar days. Would other metrics be more appropriate? Should the NCUA automatically extend the time period for timely redemption in the event of a spike in redemption requests? Should the issuer be required to notify the NCUA if it exceeds the threshold for extending the redemption period, as proposed? Should the issuer be required to inform the public upon automatic extension of the time period? Should the extension of the time period to seven calendar days be such that notwithstanding a PPSI being able to demonstrate that it can redeem

requests in an orderly fashion and through a fair and transparent process, the PPSI would not be able to redeem sooner than seven calendar days? Should the PPSI be able to make the determination that it can redeem through a fair and transparent process on its own without NCUA approval or should the standard otherwise be changed? Should the extended redemption time period apply to outstanding and subsequent redemption requests as proposed?

Question 98: Should the NCUA define "redemption" for purposes of the proposed rule? If so, should it be defined broadly to mean that, for example, the PPSI has initiated payment to the Payment Stablecoin holder in return for a tendered Payment Stablecoin? Are there reasons to define "redemption" more narrowly? For example, should the NCUA define redemption to mean that the PPSI's payment to a Payment Stablecoin holder in exchange for Payment Stablecoin has settled?

Question 99: Are there limitations that the NCUA should impose on redemption fees, *e.g.,* to discourage run risk or to encourage price stability?

Question 100: Should the NCUA require PPSIs to deliver notice to current Customers whenever they change fees, as proposed? Are there any specific methods or modes of communication that the NCUA should require? If so, which modes of communication would be most effective and appropriate? Should the notice be waived if the change is a decrease in fees?

Question 101: Should the NCUA include specific additional provisions regarding fee disclosures in the regulation text? If so, what additional requirements should be included? Should the NCUA specify how section 5 of the FTC Act relating to unfair or deceptive acts or practices could apply to how the NCUA evaluates the disclosures?[163] To whom should issuers have a responsibility to deliver disclosures regarding changes in fees? Should it be all Payment Stablecoin holders (*e.g.,* include retail holders who purchased from an exchange or secondary market), or should it be a narrower subset of holders (*e.g.,* only holders who purchased directly

[163] 15 U.S.C. 45.

from the Payment Stablecoin issuer)? Are there obstacles that would make it impractical to deliver change in fee notices to all Payment Stablecoin holders?

Question 102: The NCUA has proposed several categories of disclosure in the proposed rule and requested comment as to whether it should propose additional categories. Taken collectively, would these disclosures provide potential Customers of PPSIs with the appropriate information to inform their use of Payment Stablecoins? Are there any steps the NCUA should take to ensure that potential Customers are not confused or overwhelmed by these disclosures, especially in light of the relative unfamiliarity many potential Customers may have with Payment Stablecoins? For example, should the NCUA take any steps to unify required disclosures so that they are all provided to Customers at a specific point during the relationship? If so, how should the NCUA ensure that the most pertinent information is sufficiently emphasized? Is there anything else the NCUA should do to ensure that potential Customers are appropriately informed in regard to Payment Stablecoins issued by PPSIs? Are there any technical aspects of Distributed Ledgers or blockchain the NCUA should take advantage of in relation to disclosures? For example, should certain disclosures be automated through smart contracts, such as with wrappers or other techniques?

Question 103: Currently, many stablecoin issuers have issuance policies that may limit direct interaction with retail stablecoin holders. What are the potential impacts of these policies on retail stablecoin holders during a liquidity event? Should the NCUA explicitly require PPSIs to redeem Payment Stablecoins presented by any Payment Stablecoin holder that has undergone appropriate on-boarding including Customer screening, as proposed? Should the NCUA require PPSIs to redeem Payment Stablecoins presented by a Payment Stablecoin holder that has an account relationship at a regulated financial institution? Is additional clarity needed as to for whom a PPSI is obligated to redeem a permitted Payment Stablecoin? Should the NCUA impose any additional rules addressing minimum amounts for redemption? For example, should the

NCUA prohibit redemption minimums or set the minimum at some point other than one Payment Stablecoin?

4. § 706.204. Risk Management

a. Proposed § 706.204

Section 4(a)(4)(A)(iv) of the GENIUS Act provides that the NCUA must issue regulations implementing appropriate operational, compliance, and information technology risk management principles-based requirements and standards, including Bank Secrecy Act and sanctions compliance standards, that are tailored to the business model and risk profile of NCUA-Licensed PPSIs and are consistent with applicable law.[164] Proposed § 706.204 addresses the requirements and standards required under section 4(a)(4)(A)(iv) of the GENIUS Act. Proposed § 706.204 also addresses interest rate risk management standards under section 4(a)(4)(A)(iii) of the GENIUS Act.[165]

The GENIUS Act requires that the regulation's requirements and standards be "principles-based." Accordingly, the NCUA is proposing flexible standards in § 706.204 that scale based on the nature, scope, and risk of an NCUA-Licensed PPSI's activities. Most of the standards in proposed § 706.204 mirror the standards in the OCC Proposal. The standards in the OCC Proposal are adapted from relevant provisions of 12 CFR part 30, appendices A and B, which in turn implement 12 U.S.C. 1831p-1.[166] The OCC Proposal identified standards from appendices A and B of part 30 that fit the requirements of section 4(a)(4)(A)(iii) or 4(a)(4)(A)(iv) of the GENIUS Act and then, consistent with the statute, adapted and tailored those standards to the business models of PPSIs, as appropriate. The OCC Proposal also noted that the OCC issued a joint statement, together with the Federal Reserve and FDIC, on Risk Management Considerations for Crypto-Asset Safekeeping,[167] and that the standards in the OCC

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[164] 12 U.S.C. 5903(a)(4)(A)(iv).
[165] 12 U.S.C. 5903(a)(4)(A)(iii).
[166] The standards listed in 12 U.S.C. 1831p-1 provide a useful reference point for standards that may be applicable to PPSIs. However, 12 U.S.C. 1831p-1 is not a source of authority for issuing these risk management requirements.
[167] *See* OCC, ''Agencies Issue Joint Statement on Risk-Management Considerations For Crypto-Asset Safekeeping'' (July 14, 2025), *available at* https://www.occ.gov/ news-issuances/news-releases/2025/nr-ia-2025- 68.html.

Proposal are consistent with the considerations described in the joint statement.[168] As noted throughout this preamble, the NCUA believes it is important to, where possible, provide consistent standards across the various primary Federal payment stablecoin regulators. The NCUA agrees with the approach taken in the OCC Proposal and feels that it appropriately implements the requirements and standards required under sections 4(a)(4)(A)(iii) and (iv) of the GENIUS Act.[169] As discussed more thoroughly below, the NCUA is proposing to largely mirror the OCC's approach.

Proposed § 706.204(a)(1) requires that an NCUA-Licensed PPSI have internal controls and information systems that are appropriate for the size and complexity of the PPSI and the nature, scope, and risk of its activities and that provide for: (i) an organizational structure with appropriate segregation of duties and an internal control structure that establishes clear lines of authority and responsibility for monitoring adherence to established policies; (ii) effective risk assessment; (iii) timely and accurate financial, operational, and regulatory reporting, including with respect to reports required under proposed part 706; (iv) adequate procedures to safeguard, manage, control, and monetize assets, including Reserve Assets; and (v) compliance with applicable laws and regulations. Internal controls refer to the systems, policies, procedures, and processes effected by the board of directors and other personnel to safeguard PPSI assets, limit or control risks, achieve PPSI objectives, and ensure compliance with applicable laws and regulations. Effective internal controls help the board of directors and management safeguard the NCUA-Licensed PPSI's resources and comply with laws and regulations, as well as reduce the possibility of significant errors and irregularities, and assist in their timely detection when errors and irregularities do occur. Internal controls must also include an effective risk assessment since a PPSI cannot effectively manage its risks without an understanding of its risk profile. The

[168] Consistent with the recommendations in the Digital Financial Technology Report, the NCUA intends to continue to work to provide additional clarity with respect to Digital Asset activities undertaken by NCUA-supervised entities.
[169] 12 U.S.C. 5903(a)(4)(A)(iii)-(iv).

internal controls standards in proposed § 706.204(a)(1) align with those proposed in the OCC Proposal, which are modeled on the internal controls standards in 12 CFR part 30, with some adjustments to accommodate the particular activities and risks of PPSIs. For example, the procedures to safeguard, manage, control, and monetize assets will be expected to include measures to monitor and ensure the deposit and funds in Share Account concentration and diversification requirements are met on a daily basis.[170] Likewise, procedures will be expected to address potential vulnerabilities related to fraud and the theft of Payment Stablecoins or other assets.

The NCUA proposes that § 706.204(a)(2) requires NCUA-Licensed PPSIs have an internal audit system that is appropriate to the size and complexity of the PPSI and the nature, scope, and risk of its activities and that the audit system provides for (i) adequate monitoring of the system of internal controls through an internal audit function, or for an NCUA-Licensed PPSI whose size, complexity or scope of operations does not warrant a full scale internal audit function, a system of independent reviews of key internal controls; (ii) independence and objectivity; (iii) qualified Persons responsible for the audit function; (iv) adequate independent testing and review of internal controls and information systems, verification of published information available to Customers, calculations for required reserves, and regulatory filings; (v) adequate documentation of tests and findings and any corrective actions; (vi) verification and review of management actions to address deficiencies; and (vii) review by the institution's audit committee or board of directors of the effectiveness of the internal audit system. Internal audit systems provide objective, independent reviews of PPSI activities, internal controls, and information systems to help the board of directors and management monitor and evaluate internal control adequacy and effectiveness. An internal audit system, among other items, is

[170] In spring 2023, interest rate increases contributed to the failure of Silicon Valley Bank, which in turn caused the value of one stablecoin, USDC, to fall below $1 in the secondary market when it became evident that much of USDC's reserves were held at Silicon Valley Bank. This event illustrates the potential knock-on effects of changes in interest rates and the importance of continuous monitoring for Payment Stablecoins, particularly if acute stress creates situations where issuers are unable to access reserve assets.

expected to independently test and review systems, as appropriate, related to (1) an NCUA-Licensed PPSI's compliance with the GENIUS Act and requirements in any final rules implementing the GENIUS Act; (2) payment systems; and (3) third-party risk management. Well-planned, properly structured audit programs are essential to effective risk management and internal control systems. Effective internal audit programs are a critical defense against fraud and provide vital information to the board of directors about the effectiveness of internal controls systems. An internal audit program's responsibilities include evaluating compliance systems, safeguards around use of payment systems, and risks posed by relationships with and dependence on third parties. While it is important that internal audit functions be conducted by qualified Persons with an appropriate level of independence from other business lines, the proposed rule would not mandate a particular organizational structure (for example, three lines of defense). Proposed § 706.204(a)(2) would not prescribe a one-size-fits-all approach to risk management. Smaller NCUA-Licensed PPSIs with a lower risk profile may be able to comply using a simpler, less delineated, organizational structure, or may be able to outsource certain functions such as the internal audit function, while larger NCUA-Licensed PPSIs, with higher risk-profiles, may require organizational structures with more clearly delineated risk management functions, including internal audit personnel.

Proposed § 706.204(a)(3) addresses interest rate risk and would require an NCUA-Licensed PPSI to (i) manage interest rate risk in a manner that is appropriate to the size and complexity of the PPSI and the complexity of its assets and liabilities and (ii) provide for periodic reporting to management and the board of directors regarding interest rate risk with adequate information for management and the board of directors to assess the level of risk. While PPSIs will hold Reserve Assets that may, depending on their type, have limited or no duration (*e.g.,* in the case of deposits and funds in Share Accounts that are payable upon demand), it is still important for NCUA-Licensed PPSIs to be mindful of this risk, particularly in light of the role of interest rate risk in the failures of previous money market funds, whose investments, like

those of PPSIs, were supposed to be limited to short-duration safe assets.[171] Increases in interest rates, particularly in short time periods, can reduce the value of interest-sensitive Reserve Assets, potentially impacting their marketability and liquidity as well as their Fair Value. Similarly, changes in interest rates can affect the earnings of PPSIs since their earnings may rely in substantial part on interest earned on Reserve Assets. Likewise, increases in interest rates may reduce the demand for Payment Stablecoins, particularly since PPSIs are prohibited from paying interest to Payment Stablecoin holders solely in connection with the holding, use, or retention of Payment Stablecoins under proposed § 706.201(c)(4). The GENIUS Act explicitly authorizes interest rate risk management standards under section 4(a)(4)(A)(iii)[172] whereas section 4(a)(4)(A)(iv)[173] authorizes the other requirements and standards proposed in § 706.204. The NCUA proposes that interest rate risk management standards be included under proposed § 706.204 since it is a risk management standard like the other standards already included in proposed § 706.204.

The NCUA proposes that § 706.204(a)(4) require an NCUA-Licensed PPSI's asset growth to be prudent and commensurate with an NCUA-Licensed PPSI's risk management capabilities, operational capacity, and staffing. While there are no hard limits to how quickly NCUA-Licensed PPSIs may grow, NCUA-Licensed PPSIs must ensure that growth does not undercut the issuer's capabilities to comply with the requirements of this rule and other applicable law. For example, rapid issuance of new Payment Stablecoins would require rapid increase in reserves, and NCUA-Licensed PPSIs must ensure that they maintain the capabilities

[171] Mismanagement of interest rate risk was a leading cause of failure in two of the three money market funds in the United States in which the net asset value of the fund fell below $1 (also referred to as "breaking the buck"), ultimately leading to liquidation. *See* In the Matter of John E. Backlund, et al., Investment Company Act Release No. 23639 (January 11, 1999) (SEC administrative order involving the Community Bankers U.S. Government Money Market Fund liquidated in 1994); In the Matter of First Multifund Advisory Corp. and Milton Mound, Initial Decision, File No. 3–5881 (December 29, 1982) (SEC initial decision involving the First Multifund for Daily Income liquidated in 1978).
[172] 12 U.S.C. 5903(a)(4)(A)(iii).
[173] 12 U.S.C. 5903(a)(4)(A)(iv).

to maintain these reserves in compliance with proposed § 706.202 and maintain the ability to access and monetize the reserves in order to meet redemption requests.

The NCUA proposes that § 706.204(a)(5) requires that an NCUA-Licensed PPSI establish and maintain a risk management system that is commensurate with the PPSI's size and complexity and the nature and scope of its operations to evaluate and monitor earnings and ensure that earnings are sufficient to support operations and maintain the capital levels that would be required under subpart D of proposed part 706. To reflect the distinct characteristics of PPSIs as compared to other types of entities, the proposed standards on earnings in proposed § 706.204(a)(5) do not include all the listed elements in paragraph II.H in appendix A to 12 CFR part 30, from which the earnings standard in the OCC's Proposal (proposed § 15.13(a)(5)) and this proposal (proposed § 706.204(a)(5)) were adapted. Nevertheless, under this proposed rule, NCUA-Licensed PPSIs would be expected to comply with the overarching requirement to evaluate and monitor earnings. It may be particularly important for PPSIs to evaluate the volatility and sustainability of earnings, since changes in short-term interest rates could have sudden impacts on PPSI earnings.

Proposed § 706.204(a)(6) addresses Insider and Affiliate transactions and is intended to protect an NCUA-Licensed PPSI from entering into detrimental transactions with Insiders or Affiliates. Under proposed paragraph (a)(6)(i), an NCUA-Licensed PPSI would be required to ensure that transactions between the PPSI and Insiders or Affiliates: (1) are not excessive and do not pose significant risks of material financial loss; (2) are conducted on terms that are the same or at least as favorable to the PPSI as those prevailing at the time for comparable transactions with or involving non-Insiders or non-Affiliates (or in the absence of comparable transactions, are offered on terms and under circumstances that, in good faith would be offered to, or would apply to non-Affiliates or non-Insiders); and (3) are appropriately documented and reviewed by the board of directors. Proposed paragraph (a)(6)(ii) would require an NCUA-Licensed PPSI to appropriately monitor and validate compliance with these requirements.

Proposed § 706.204(a)(7) would provide requirements for overseeing third-party service provider arrangements. Specifically, an NCUA-Licensed PPSI must (i) exercise appropriate due diligence in selecting its service providers; (ii) require its service providers by contract to implement appropriate measures designed to meet the requirements of part 706; and (iii) as appropriate, monitor its service providers to confirm they have satisfied their obligations under proposed part 706. As part of this monitoring, NCUA-Licensed PPSIs should review audits, summaries of test results, or other equivalent evaluations of its service providers.

Proposed § 706.204(a)(8) would require an NCUA-Licensed PPSI to (i) appropriately monitor and validate compliance with the requirements of § 706.202 and (ii) manage liquidity and concentration risk in a manner that is appropriate to the business model and risk profile of the PPSI.

Proposed § 706.204(b)(1) provides that an NCUA-Licensed PPSI must implement a comprehensive written information security risk and control framework, including a program that assesses and manages information technology and information security risks.

Under proposed § 706.204(b)(2), the board of directors of the NCUA-Licensed PPSI, or an appropriate board committee, must approve the information technology and security program. The board must oversee the development, implementation, and maintenance of the program, including the appointment of a qualified Information Technology and Security Officer. The oversight required of the board or committee includes assigning specific responsibility for program implementation and review of program-related reports.

Under proposed § 706.204(b)(3), an NCUA-Licensed PPSI's information technology and security program must include (i) an inventory and classification of assets, processes, and sensitivity of data; (ii) controls supporting and safeguarding sensitive information and processes; (iii) evaluation, validation, and reporting processes to ensure that key information technology systems and controls, including smart contracts, are operating as intended; (iv) periodic

independent testing; and (v) a comprehensive and effective incident identification and assessment process and incident response program.

Under proposed § 706.204(b)(4), an NCUA-Licensed PPSI's information technology and security program must include administrative, technical, and physical safeguards designed to (i) ensure the security and confidentiality of records containing Nonpublic Personal Information about a Customer; (ii) protect against any anticipated threats or hazards to the security or integrity of such records; (iii) protect against unauthorized access to or use of such records that could result in substantial harm or inconvenience to any Customer; and (iv) ensure the proper disposal of such records.

Proposed § 706.204(b)(5) provides that an NCUA-Licensed PPSI must develop, implement, and maintain appropriate measures to ensure secure handling of Digital Assets, including Private Key management, backup, and recovery incorporating: (i) relevant technical, operational, strategic, market, legal, and compliance considerations relating to each Digital Asset and its underlying Distributed Ledger; and (ii) material developments specifically related to supported Digital Assets and their underlying Distributed Ledgers.[174]

Proposed § 706.204(b)(6) would require that an NCUA-Licensed PPSI monitor, evaluate, and adjust, as appropriate the information technology and security program in light of any relevant changes in technology, the sensitivity of its Customer information, internal or external threats, and the PPSI's own changing business arrangements, such as mergers and acquisitions, alliances and joint ventures, third-party arrangements, and changes to applicable information systems.

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[174] If an NCUA-Licensed PPSI holds Digital Assets on a Customer's behalf, the PPSI's risk management practices must reflect this activity. Consistent with the July 14, 2025 Joint Statement on Risk-Management Considerations for Crypto-Asset Safekeeping issued by the FDIC, Federal Reserve, and OCC, an NCUA-Licensed PPSI holding Digital Assets on a Customer's behalf would be required to maintain risk management practices, and information security practices in particular, that reflect the PPSI's capacity to understand a complex and evolving asset class, ability to ensure a strong control environment, and appropriate contingency plans to address unanticipated challenges in effectively providing services to Customers.

Proposed § 706.204(b)(7) would provide that an NCUA-Licensed PPSI must conduct a reasonable investigation when it becomes aware of an incident of unauthorized access to sensitive Customer information, including a Customer's Private Key, to determine the likelihood that the information has been or will be misused. The requirements in proposed § 706.204(b)(7) mirror those in the OCC Proposal (proposed § 15.13(b)(7)), which are similar to the OCC's supplement A to appendix B to part 30[175] and the guidance for FICUs, currently located in NCUA's appendix B to part 748.[176] If the NCUA-Licensed PPSI determines that misuse of Customer information has occurred or is reasonably possible, the PPSI must notify the Customer or Customers affected or possibly affected as well as the NCUA as soon as possible. Customer notice must be delayed if an appropriate law enforcement agency determines that notification will interfere with a criminal investigation and provides the NCUA-Licensed PPSI with a written request for the delay. If delayed by investigation, the NCUA-Licensed PPSI must notify its Customers of the misuse or possible misuse of Customer information as soon as law enforcement notifies the PPSI that notification will no longer interfere with the investigation. Proposed § 706.204(b)(7)(ii) recognizes that there may be situations where the NCUA-Licensed PPSI determines that a group of files has been accessed improperly but is unable to identify which specific Customers' information has been accessed. If the circumstances of the unauthorized access lead the NCUA-Licensed PPSI to determine that misuse of the information is reasonably possible, it must notify all Customers in the group.

Proposed § 706.204(b)(8) would provide that an NCUA-Licensed PPSI's information technology and security program must include measures to ensure continuity of operations and recover critical functions in the face of disruptions, including by business impact analyses, testing of vulnerabilities, and testing with critical service providers. Recent corporate information technology system failures have demonstrated the importance of measures to

[175] 12 CFR part 30, Appendix B.
[176] 12 CFR part 748, Appendix B.

maintain operational resilience. NCUA-Licensed PPSIs should ensure that they have sufficient controls to reliably address operational issues that may arise with burning and minting new Payment Stablecoins and should conduct appropriate due diligence before supporting any new Distributed Ledger. Operational resilience will be particularly important for PPSIs, who will depend on Customer confidence in the stable value and availability of their Payment Stablecoins.

Proposed paragraph § 706.204(c) would implement the GENIUS Act's requirement for the NCUA to issue regulations implementing appropriate Bank Secrecy Act and sanctions compliance standards by providing that, in order to ensure compliance with Bank Secrecy Act and sanctions compliance requirements, each NCUA-Licensed PPSI must comply with the Bank Secrecy Act, sections 4(a)(5) and 4(a)(6) of the GENIUS Act,[177] and applicable regulations at 31 CFR Chapter V and 31 CFR Chapter X, including any AML/CFT program, sanctions program, and reporting requirements. The Department of Treasury's Financial Crimes Enforcement Network (FinCEN) and the Office of Foreign Assets Control (OFAC) recently issued a separate proposed rule that would implement the GENIUS Act's directive to treat PPSIs as financial institutions under the Bank Secrecy Act, as well as imposing several unique obligations required by the GENIUS Act.[178] The FinCEN and OFAC proposed rule would also implement the GENIUS Act's directive to require PPSIs to maintain effective sanctions compliance programs. In the interests of reducing burden and promoting consistent requirements, the proposed rule would not contain additional requirements beyond those contained in these proposed rules at this time. Instead, compliance with regulations at 31 CFR Chapter V and 31 CFR Chapter X would constitute compliance with proposed paragraph § 706.204(c). Proposed § 706.204(c) would also specifically reference subpart E of this part, which would provide the NCUA's supervision and enforcement policy for AML/CFT program requirements for NCUA-Licensed PPSIs.

b. Request for Comment

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[177] 12 U.S.C. 5903(a)(5) and (6).
[178] 91 FR 18582 (Apr. 10, 2026).

The NCUA requests feedback on all aspects of the proposed rule, including:

Question 104: How should the NCUA ensure that the standards in proposed § 706.204 are "principles-based" while providing sufficient clarity to PPSIs? Should the requirements in proposed § 706.204 be more high level or more detailed?

Question 105: Should certain of the risk management requirements only apply to large PPSIs? If so, which requirements should only apply to large PPSIs, and what would be the appropriate threshold for determining that a PPSI is a large issuer (*e.g.,* $10 billion in Outstanding Issuance Value)?

Question 106: Which standards from 12 U.S.C. 1831p-1 and 12 CFR part 30 appendices A and B should or should not apply to PPSIs? Are there other standards not in 12 U.S.C. 1831p-1 and 12 CFR part 30 appendices A and B that should apply PPSIs? Commenters are directed to these sources even though they do not apply to FICUs because they serve as a basis for the OCC Proposal.

Question 107: Do the proposed risk management requirements appropriately provide for clear management roles, responsibilities, and accountability? If not, how should the proposed risk management requirements be revised?

Question 108: Should PPSIs be required to adopt and adhere to a risk appetite statement?

Question 109: Should PPSIs be required to regularly (*e.g.,* on at least an annual basis), review their risk management framework and make any changes to appropriately align risk management activities with their business objectives and strategies?

Question 110: Should the proposed rule's requirements with respect to interest rate risk management be modified? If so, how? For example, should PPSIs have in place the appropriate policies, procedures and internal controls for their interest rate risk management programs? Should PPSIs develop appropriate measurement of interest rate risk as part of their interest rate risk management programs? Should PPSIs establish risk appetite and limit structure as part of interest rate risk management programs? Should PPSIs incorporate stress testing as part of their

interest risk management programs? Should PPSIs be allowed to use assets that do not qualify as Reserve Assets as part of an interest rate risk hedging program? If so, should there be restrictions on the types of instruments used for hedging purpose? Additionally, should the maturities of the hedging instruments be matched with the maturities of the qualified Reserve Assets?

Question 111: What types of credit risk may PPSIs face, and how should PPSIs manage these risks? Should the proposed rule include specific requirements or standards related to management of credit risk? If so, what specific requirements or standards should the NCUA consider including?

Question 112: Are the risk management requirements in proposed § 706.204(a)(8) necessary in light of the requirements in proposed § 706.202?

Question 113: Are there areas that fall under the categories of technological, operational, compliance, or other risk management principles-based requirements and standards that should be included in § 706.204 but were omitted from the proposed rule? Should proposed § 706.204(b) expressly address risks relating to smart contracts, encryption, tokenized assets, or any other technology or procedure? Are there standards which were included but are not applicable to PPSIs? The proposed rule would require the appointment of a qualified Information Technology and Security Officer. Should the rule also require the appointment of a qualified Chief Risk Officer and Chief Audit Executive? The NCUA is considering all possible combinations of the standards in proposed § 706.204 and invites comments on which combination of standards is appropriate as well as whether to remove any of the individual standards in proposed § 706.204.

Question 114: Should the NCUA consider operational risk management principles-based requirements and standards to address the situation where an issuer needs to transfer Payment Stablecoins across different blockchains to satisfy a redemption demand? If so, what kind of requirements and standards should the NCUA consider to address this situation? For example,

should there be specific requirements relating to locking, minting, or burning Payment Stablecoins to facilitate a transfer?

Question 115: Should the NCUA include consumer protection-related compliance risk management principles-based requirements and standards in § 706.204? If so, are there specific standards the NCUA should institute?

Question 116: Are there additional requirements concerning data privacy that would be appropriate for the NCUA to include in proposed part 706? Please describe in detail any such standards.

Question 117: Are there particular measures necessary to manage compensation-related concerns at PPSIs, notably risks associated with compensating any party with Payment Stablecoins issued by a PPSI?

Question 118: Should the NCUA include additional requirements concerning PPSIs' management of their ability to satisfy redemption requests and to monetize Reserve Assets, including by analyzing reasonably anticipated redemption scenarios?

Question 119: Should the NCUA include additional requirements relating to the maintenance of safeguards to prevent the payment of compensation, fees, and benefits that are excessive or that could lead to material financial loss to the PPSI?

Question 120: Are the proposed requirements with respect to Insider and Affiliate transactions appropriately tailored? If not, how should they be modified? Should the NCUA consider more prescriptive quantitative or qualitative requirements related to Insider and Affiliate transactions?

Question 121: Should the NCUA include any requirements relating to the concentration of management at unaffiliated PPSIs? For example, should the NCUA include limits on the number of unaffiliated PPSIs for which an individual may serve as an Officer or senior management official? Should any such limits be tied to the Outstanding Issuance Value of the PPSI?

Question 122: Should the NCUA require PPSIs to acquire insurance against certain risks? For example, should PPSIs be required to hold cyber insurance policies? If so, what should be the minimum coverage requirements? Should the NCUA require some minimum level of property and casualty insurance? If so, what should the minimum level of coverage be? What disclosures, if any, would it be appropriate for a PPSI to make with respect to its insurance coverage and to whom should those disclosures be directed (*e.g.,* investors or Payment Stablecoin holders)? What implications with respect to other applicable disclosure regimes should the NCUA consider when deciding whether to impose any disclosure requirements with respect to insurance coverage? To what extent are the terms and conditions for property and casualty (or other types of) insurance coverage for PPSIs becoming more standardized? What steps, if any, should the NCUA take to encourage standardization to increase certainty and consistency with respect to insurance coverage across jurisdictions?

5. § 706.205. Audits, Reports, and Supervision

a. Examinations

Section 6(a)(1) of the GENIUS Act authorizes primary Federal payment stablecoin regulators, including the NCUA, to supervise PPSIs, as defined in the statute.[179] Section 6(a)(3) of the GENIUS Act authorizes the NCUA to examine PPSIs to assess the nature of their operations and the financial condition of the PPSI; the financial, operational, technological, compliance, and other risks associated within the PPSI that may pose a threat to the safety and soundness of the PPSI or the stability of the financial system of the United States; and the systems of the PPSI for monitoring and controlling the risks.[180] Pursuant to section 6(a)(4)(C) of the GENIUS Act, the NCUA may only request examinations at a cadence and in a format that is similar to that required for similarly situated entities regulated by the NCUA.[181]

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[179] 12 U.S.C. 5905(a)(1).
[180] 12 U.S.C. 5905(a)(3).
[181] 12 U.S.C. 5905(a)(4)(C).

NCUA's current examination program for FCUs requires a 12-month examination unless certain criteria are met.[182] FCUs can qualify for an examination every 14 to 24 months based on capital levels, asset size, supervisory ratings, and status of any enforcement actions.[183] The NCUA is proposing to apply this same examination framework to its examination authority over PPSIs. Proposed § 706.205(a) provides that the NCUA will conduct a full-scope examination of every PPSI subject to its supervision at least once during each 12-month period, unless otherwise specified in proposed § 706.205(d). A full-scope examination refers to the comprehensive review of a PPSI's financial condition, risk management practices, compliance with laws and regulations, and overall safety and soundness.

Proposed § 706.205(d) would provide the NCUA with the option to examine some PPSIs on a 14- to 24-month cycle, as determined by the NCUA in its sole discretion, if the issuers satisfy the following conditions: (1) the PPSI currently is not subject to a formal enforcement proceeding or order; (2) no Person became a Parent Company or acquired Control, as specified in §§ 706.111 and 706.205(m), of the PPSI during the preceding 12-month period in which a full-scope examination would have been required but for proposed § 706.205(d); (3) the PPSI has an Outstanding Issuance Value of less than $1 billion or less than $25 billion in total monthly Trading Volume; and (4) the PPSI is in compliance with all of the reserve requirements set forth in proposed § 706.202 and the reporting requirements in proposed § 706.205.

Consistent with the NCUA's statutory authority under the GENIUS Act and the NCUA's supervisory authority over FICUs, proposed § 706.205(e) allows the NCUA to conduct examinations of PPSIs as frequently as the agency deems necessary, including examinations of a limited scope. The NCUA has proposed this provision to ensure the agency has clear authority to conduct ad hoc examinations when emergencies or risks to the safety and soundness of a PPSI or the FICU investors require the agency to deviate from its routine examination cycle.

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[182] *See* NCUA's Examination Flexibility Initiative webpage at *available at https://ncua.gov/regulation-supervision/examination-modernization-initiatives/exam-flexibility-initiative* for the eligibility criteria

[183] *Id.*

Proposed § 706.205(b) requires that, upon request, PPSIs must grant NCUA examiners prompt and complete access to all Officers, Directors, employees, agents, and relevant books, records, or documents of any type. The NCUA, through its examination authority over FICUs, [184] and the examination authority the GENIUS Act provides it over PPSIs that are FICU subsidiaries,[185] has authority to access the Officers, agents, and books and records of these institutions. The books and records of a PPSI include, but are not limited to, information retained on Distributed Ledgers. Additionally, proposed § 706.205(c) clarifies that the NCUA may conduct examinations either on site, remotely, or in some combination. Proposed § 706.205(f) provides that all PPSIs must maintain a complete set of books and records in English and in compliance with GAAP. Proposed § 706.205(g) requires all PPSIs to develop and implement a records retention policy that ensures the PPSI can demonstrate compliance with the GENIUS Act, this part, and all applicable laws and regulations.

b. Reports

Section 6(a)(2) of the GENIUS Act requires that each PPSI shall, upon request, submit to the appropriate Federal payment stablecoin regulator a report on: the financial condition of the PPSI; the systems of the PPSI for monitoring and controlling financial and operating risks; compliance by the PPSI (and any subsidiary thereof) with the GENIUS Act; and the compliance of the Federal qualified nonbank payment stablecoin issuer with the Bank Secrecy Act and with laws authorizing the imposition of sanctions and implemented by the Secretary of the Treasury.[186]

Section 6(a)(4) of the GENIUS Act requires the NCUA to take certain actions to promote efficiency in the supervision and examination of PPSIs. The NCUA, in supervising and examining PPSIs, to the fullest extent possible, must use existing supervisory reports and other supervisory information and avoid duplication of examination activities, reporting requirements,

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[184] 12 U.S.C. 1756 and 1784.
[185] *See* 12 U.S.C. 5905.
[186] 12 U.S.C. 5905(a)(2).

and requests for information.[187] Proposed § 706.205(j) implements section 6(a)(2) of the GENIUS Act by requiring each PPSI subject to the requirements of section 6(a)(1) of the Act to, upon request, submit to the NCUA a report on: (1) the financial condition of the PPSI; (2) the systems of the PPSI for monitoring and controlling financial and operating risks; (3) compliance by the PPSI (and any subsidiary thereof) with the GENIUS Act and proposed part 706; and (4) compliance of the PPSI with the Bank Secrecy Act and with laws authorizing the imposition of sanctions and implemented by the Secretary of the Treasury. In an effort to clarify the GENIUS Act's requirements, the NCUA has proposed in §706.205(j)(4) expanding the requirement that Federal qualified nonbank payment stablecoin issuers produce reports of compliance with the requirements of the Bank Secrecy Act and with laws authorizing the imposition of sanctions and implemented by the Secretary of the Treasury to all PPSIs.[188]

In addition to the regulations codifying the reporting requirements in section 6(a)(2) of the GENIUS Act,[189] pursuant to its supervisory authority in section 6(a)(1) of the GENIUS Act,[190] the NCUA is proposing in § 706.205(h) to require PPSIs to submit certain information on a weekly basis, in the manner and form specified by the NCUA to assist in ongoing supervision of the PPSI. At a high level, the NCUA is requesting a PPSI provide information regarding the issuance and redemption, Trading Volume, and Reserve Assets for each Payment Stablecoins it issues. The report would include information relating to the blockchains the Payment Stablecoin is listed on, Outstanding Issuance Value, secondary market activity and price movement, redemption volume and times, detailed information regarding Reserve Assets, and other relevant

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[187] 12 U.S.C. 5905(a)(4).

[188] The NCUA notes that section 6(a)(2) of the GENIUS Act (12 U.S.C. 5905(a)(2)) requires all PPSIs to provide the subsequent list of reports in section 6(a)(2)(A) through (D) to the NCUA upon request, whereas section 6(a)(2)(D) refers to the compliance of "the Federal qualified nonbank payment stablecoin issuer with the requirements of the Bank Secrecy Act." Based on the structure of section 6(a)(2), the NCUA believes all PPSIs must, upon request, produce each of the listed reports and that the NCUA could request the report required in section 6(a)(2)(D) from a PPSI. Additionally, section 6(a)(1) of the GENIUS Act (12 U.S.C. 5905(a)(1)) gives the NCUA supervisory authority over all PPSIs that are FICU subsidiaries, which provides the NCUA with further authority to request the report in section 6(a)(2)(D).

[189] 12 U.S.C. 5905(a)(2). With regards to reporting by a PPSI as to its assets under custody, section 10(d) of the GENIUS Act (12 U.S.C. 5909(d)) provides an additional statutory grant of authority.

[190] 12 U.S.C. 5905(a)(1).

information. NCUA will provide more information about the specific information requested on a webpage that will be available from NCUA's homepage at www.ncua.gov. The NCUA believes that requiring a PPSI to provide a confidential set of data on a weekly basis for each Payment Stablecoin it issues will allow the NCUA to understand the PPSI's operations and the risks unique to its business model. This regular data reporting will allow the NCUA to tailor its examinations to be risk-based, which will reduce the burden of examinations by focusing the scope of examinations. Further, the NCUA believes that this regular reporting framework will allow the NCUA to identify and respond more quickly to emerging novel and financial stability risks. The NCUA also believes the information request is currently tracked on a regular basis by stablecoin issuers.

The NCUA is proposing in § 706.205(i) a separate provision that requires PPSIs to submit quarterly reports of financial condition to the NCUA, including, but not limited to income statement, expenses, balance sheet, reserves, changes in equity, investments, capital, Outstanding Issuance Value, and assets under custody, in a standardized format as prescribed by the NCUA within 30 days of the end of the prior quarter. This provision is similar to the quarterly statements of financial condition that FICUs provide through their quarterly Call Report and Profile. The NCUA proposes this provision to ensure that PPSIs provide consistent, standardized statements of financial condition to the NCUA and will include additional information beyond the composition report required under § 706.202(e) and different information than what would be requested in the confidential weekly reporting required under proposed § 706.205(h). Receiving standardized data on a quarterly basis will enhance the NCUA's ability to supervise PPSIs and provide another source of information that can be used to tailor examinations and identify emerging risks.

The information required to be reported under this section will be streamlined substantially relative to the Call Reports filed by FICUs. Standardizing these reporting requirements will enhance the NCUA's ability to supervise PPSIs and provide clarity as to the

information a PPSI must report. Similar to FICU financial data, the NCUA intends to publish the information provided in the quarterly report to ensure transparency and provide the public with an understanding of a PPSI's financial condition on an ongoing basis. The NCUA also proposes to require that each quarterly report of financial condition includes a declaration from the PPSI's Chief Financial Officer, or the individual performing an equivalent function, that the report is true and correct to the best of their knowledge and belief. The correctness of the quarterly report of condition shall also be attested to by the signatures of the Directors and senior management of the PPSI other than the Officer making such declaration, with the attestation stating that the report has been examined by them and to the best of their knowledge and belief is true and correct. The NCUA proposes requiring these declarations and attestations to ensure that PPSI's Officers and Directors are accountable for the accuracy of the PPSI's reports of financial condition, similar to existing standards for FICUs.

Proposed § 706.205(k) implements section 5(i) of the GENIUS Act .[191] Consistent with the statute, under the proposed rule, not later than 180 days after the approval of an application under proposed subpart A, and on an annual basis thereafter, a PPSI must submit to the NCUA a certification that the PPSI has implemented anti-money laundering and economic sanctions compliance programs that are reasonably designed to prevent the PPSI from facilitating money laundering, in particular, facilitating money laundering for cartels and organizations designated as foreign terrorist organizations under section 219 of the Immigration and Nationality Act (8 U.S.C. 1189) and the financing of terrorist activities, consistent with the requirements of the GENIUS Act.

c. Audits

Section 4(a)(10) of the GENIUS Act requires that a PPSI with more than $50 billion in consolidated total Outstanding Issuance Value that is not subject to certain reporting

[191] 12 U.S.C. 5904(i).

requirements under Federal securities laws prepare an annual financial statement.[192] Section 4(a)(10) further provides that a Registered Public Accounting Firm must perform an audit of the annual financial statement. The audited annual financial statement must be made publicly available on the PPSI's website and be submitted annually to the primary Federal payment stablecoin regulator.

Proposed § 706.205(l) implements the requirements of section 4(a)(10) of the GENIUS Act. Under the proposed rule, each PPSI with more than $50 billion in Outstanding Issuance Value that is not subject to the reporting requirements under section 13(a) or 15(d) of the Securities and Exchange Act of 1934[193] must prepare, in accordance with GAAP, an annual financial statement that must include the disclosure of any related party transactions, as defined by GAAP. Proposed § 706.205(l)(1) requires that a Registered Public Accounting Firm must conduct an audit of the financial statements in accordance with all applicable auditing standards established by the Public Company Accounting Oversight Board. Section 4(a)(10)(A)(iii) of the GENIUS Act describes "applicable auditing standards"[194] as those that would apply if the PPSI were subject to the reporting requirements under section 13(a) or 15(d) of the Securities and Exchange Act of 1934.[195] The standards would be enforced by the NCUA for PPSIs subject to the audit requirement under section 4(a)(10)(A)(iii) of the GENIUS Act.[196] Consistent with this framework, the NCUA may at any time request that a Registered Public Accounting Firm provide to the NCUA certain additional information or documents relating to information provided by the PPSI. The Registered Public Accounting Firm must agree to provide copies of any working papers, policies, and procedures relating to services in connection with the audit required under section 4(a)(10)(A)(iii) of the GENIUS Act.[197]

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[192] 12 U.S.C. 5903(a)(10).
[193] 15 U.S.C. 78m(a) or 78o(d).
[194] 12 U.S.C. 5903(a)(10)(A)(iii).
[195] 15 U.S.C. 78m or 78o(d).
[196] 12 U.S.C. 5903(a)(10)(A)(iii).
[197] 12 U.S.C. 5903(a)(10)(A)(iii).

Proposed § 706.205(l)(2) requires the PPSI to: (1) make the audited financial statement publicly available on its website, and (2) submit the audited financial statement annually to the NCUA, in accordance with the GENIUS Act. Under proposed § 706.205(l)(2)(ii), a PPSI would be required to submit to the NCUA annually, within 120 days of the end of its fiscal year, an audited financial statement. If a PPSI is unable to timely file all or any portion of its financial statements, proposed § 706.205(l)(2)(iii) would require the PPSI to submit a written notice of late filing to the NCUA that would: (A) disclose the PPSI's inability to file all, or specified portions, of its annual financial statement and the reasons therefore in reasonable detail; (B) include the date by which the financial statement will be filed; and (C) be filed on or before the deadline for filing the financial statement.

d. Changes in Control

Proposed § 706.205(m) would address changes in Control of an NCUA-Licensed PPSI. Proposed § 706.205(m) would require a Person seeking to acquire Control, as those terms are defined in this part, of a PPSI to follow the requirements of proposed 12 CFR § 706.111 in Subpart A as if the Person were a FICU seeking to become a new Parent Company of an NCUA-Licensed PPSI. Thus, consistent with § 706.111, a Person seeking to acquire Control would need to provide 60 days' prior notice to the NCUA. The NCUA could inform the filer that the acquisition has been disapproved, has not been disapproved, or that the review period has been extended.

The NCUA is considering including additional provisions detailing the consequences of failing to follow the procedures under § 706.111 both for new potential FICU Parent Companies and Persons acquiring Control of an NCUA-Licensed PPSI. For example, the NCUA is considering including language stating that, if a Person acquires Control of an NCUA-Licensed PPSI without following the requirements of § 706.111 before the time for the NCUA's review as provided in § 706.111 has expired or after the NCUA has disapproved the acquisition of control, the PPSI: (i) must, within 15 calendar days of the acquisition of Control, provide all information

required under § 706.111; and (ii) may be subject to supervisory or enforcement actions relating to any concerns arising from the change in Control, consistent with applicable law. The NCUA welcomes any comments related to proposed § 706.205(m) as well as the additional language the NCUA is considering including in proposed § 706.205(m).

The NCUA proposes requiring this notice to facilitate the NCUA's ongoing examination and supervision of NCUA-Licensed PPSIs. Requiring notice of changes in Control will assist the NCUA in carrying out its mandate to examine PPSIs and is consistent with the NCUA's authority to supervise, request reports, and conduct examinations pursuant to section 6(a) of the GENIUS Act.[198] In addition, requiring notice regarding changes in Control will help the NCUA monitor for and address evasion of the requirements of the GENIUS Act. For example, there may be instances where changes in Control implicate the risk management requirements of the GENIUS Act, Bank Secrecy Act/Anti-Money Laundering (BSA/AML) or sanctions evasion. Similarly, section 5(c) of the GENIUS Act includes requirements designed to prevent an individual that has been convicted of a felony offense involving insider trading, embezzlement, cybercrime, money laundering, financing of terrorism, or financial fraud from serving as an Officer or Director for an applicant.[199] The same section of the GENIUS Act includes provisions addressing the competence, experience, integrity of the Officers, Directors, and Principal Shareholders of the applicant. Absent a requirement to submit a notice regarding a change in Control, an applicant could become licensed with a set of Officers, Directors, and Principal Shareholders that do not raise concerns under section 5(c) of the GENIUS Act and then transfer Control to Persons that do implicate concerns under section 5(c) of the Act or that otherwise raise concerns regarding the ability of the PPSI to comply with the Act and its implementing regulations.[200]

e. Use of Existing Reports and Avoidance of Duplication

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[198] 12 U.S.C. 5905(a).
[199] 12 U.S.C. 5904(c).
[200] 12 U.S.C. 5904(c).

Section 6(a)(4) of the GENIUS Act requires the NCUA to take certain actions to promote efficiency in the supervision and examination of PPSIs.[201] The NCUA, in supervising and examining PPSIs, to the fullest extent possible, must use existing supervisory reports and other supervisory information and avoid duplication of examination activities, reporting requirements, and requests for information. Proposed § 706.205(n) and (o) implement the requirements of section 6(a)(4)(A) and (B) of the GENIUS Act by mirroring the statutory requirements and stating that, as a part of its supervision and examination of PPSIs, the NCUA, to the fullest extent possible, will use existing supervisory reports and other supervisory information and avoid duplication of examination activities, reporting requirements, and requests for information.[202] The NCUA will follow this approach, including in developing and issuing related examination policies and processes. The NCUA believes this is the optimal approach because it will allow the NCUA to quickly adapt its supervisory and examination policies to maximize both efficiency and burden reduction. This approach is also consistent with the approach that the NCUA takes for other entities under its jurisdiction.

Proposed § 706.205(o) would generally state that the NCUA will, to the fullest extent possible, avoid duplication of examination activities, reporting requirements, and requests for information. The Board understands that FICUs may seek to invest in PPSIs that meet the PPSI definition because they are a subsidiary of a non-FICU IDI, are a Federal qualified payment stablecoin issuer, or a State qualified payment stablecoin issuer. The Board is also aware that these investments may create ambiguity regarding designation of the primary Federal payment stablecoin regulator and requests comment on how such institutions should be treated for purposes of licensing, regulation, supervision, examination, and enforcement. The NCUA and the other primary Federal payment stablecoin regulators may address such potential interjurisdictional issues in the future.

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[201] 12 U.S.C. 5905(a)(4).
[202] 12 U.S.C. 5905(a)(4)(A)-(B).

f. Request for Comment

The NCUA requests feedback on all aspects of the proposed rule, including:

Question 123: Should the NCUA alter the proposed reporting or examination requirements? If so, how? Is there additional information that should be included in the required reports or information that is not included in the proposed rule? Is there information included in the required reports or information that should not be included in the rule?

Question 124: Proposed § 706.205(d) sets forth criteria under which a PPSI could qualify for an extended examination cycle. Are those criteria properly calibrated? Is the timeframe for an extended examination cycle appropriate? Should the NCUA consider decreasing or increasing the range for an extended examination cycle? Should the NCUA consider both monthly Trading Volume and Outstanding Issuance Value when determining whether to employ an extended examination cycle? Should the NCUA consider increasing or decreasing the Outstanding Issuance Value and total monthly Trading Volume limits for eligibility for an extended examination cycle? Are there other factors that should be included, such as redemption rates, asset composition, or creditworthiness? If so, how should the NCUA consider those factors?

Question 125: In proposed § 706.205(h), the NCUA proposes to collect confidential weekly data from PPSIs to minimize the examination burden on PPSIs. The weekly data would include information relating to: (1) Outstanding Issuance Value, (2) Reserve Assets, (3) redemptions, (4) minting and issuance, (5) exchanges on which the Payment Stablecoin trades, (6) the 100 Persons that hold or trade the Payment Stablecoin the most, (7) data concerning securities held as Reserve Assets (including information regarding Reserve Assets' CUSIPs, yield, weighted average maturity and weighted average life), and (8) information regarding repurchase agreements and reverse repurchase agreements (including information regarding the counterparty, clearing agency, collateral, and interest). Are these the appropriate data fields and categories of information to collect from a PPSI on a weekly basis to understand the operations and risks unique to its business model? If not, are there data fields that the NCUA should not

request on a weekly basis and are there any additional data fields beyond those proposed that the NCUA should collect on a weekly basis from a PPSI to better assist in understanding the operations and risks unique to its business model? Should the NCUA collect secondary market transaction data (*e.g.,* trading price and volume)? Or should the NCUA only collect primary market transaction data? Would it be too burdensome for PPSIs to provide the proposed weekly data to the NCUA electronically on a daily or real-time basis? Should the NCUA collect additional data regarding the custody of Reserve Assets (or other Covered Assets)? Should the data collected be made public? If, so, on what timeframe should the data be made public? To what extent, if any, would a PPSI be anticipated to track the information required under the form referred to in proposed § 706.205(h) on a regular or real-time basis for its own use in the absence of a requirement to report it? To what extent would the proposed weekly and quarterly reporting requirements tend to reduce the frequency at which the NCUA would need to examine PPSIs? Are there other reporting requirements that the NCUA could request that might reduce the frequency at which the NCUA would need to examine PPSIs?

Question 126: In proposed § 706.205(i), the NCUA requires all PPSIs to submit a quarterly report of financial condition. Should the NCUA tailor this requirement for PPSIs under a certain threshold? If so, what should the threshold be? For PPSIs under the threshold, should the NCUA require less frequent reporting (*e.g.,* every six months) and/or change the data issuers under the threshold are required to submit (*e.g.,* require less data)? Should FICU Parent Companies be required to submit the quarterly report required under proposed § 706.205(i)? If so, why? If not, why not? Should the quarterly report under proposed § 706.205(i) be attached to the Call Report as an appendix as opposed to a separate filing? If so, why? If not, why not? Are there changes that should be made to the Call Report to ensure appropriate reporting while limiting duplicative reporting requirements? Should reports required under proposed § 706.205(i) and proposed part 706 more generally be coordinated and developed on an interagency basis across the primary Federal payment stablecoin regulators? Should any financial information

included in the filings be required to be reviewed by a Registered Public Accounting Firm. If so, why? If not, why not?

Question 127: In addition to requiring a monthly report of a PPSI's Reserve Asset composition, should the NCUA also require a PPSI to publish a report of the Reserve Asset composition as of a day randomly selected each month by the PPSI's Registered Public Accounting Firm?

Question 128: How can the NCUA best minimize duplication of reports, including for PPSIs subject to the audit requirement contained in proposed § 706.205(l)? Should the NCUA include in the rule text its interpretation of "applicable auditing standards" under section 4(a)(10)(A)(iii) of the GENIUS Act[203] to mean those that would apply if the PPSI were subject to the reporting requirements under section 13(a) or 15(d) of the Securities and Exchange Act of 1934?[204] Should the NCUA also include in the rule text that the standards would be enforced by the NCUA for PPSIs subject to the audit requirement under section 4(a)(10)(A)(iii) of the GENIUS Act?[205] Should the NCUA also include in the rule text that it may at any time request that a Registered Public Accounting Firm provide to the NCUA certain additional information or documents relating to information provided by the PPSI and that the Registered Public Accounting Firm must agree to provide copies of any working papers, policies, and procedures relating to services in connection with the audit required under section 4(a)(10)(A)(iii) of the GENIUS Act?[206]

Question 129: The NCUA is proposing that PPSIs report to the NCUA the total aggregate value of their assets under custody (as part of the quarterly report described in § 706.205(i) of the proposal). For purposes of this calculation, the NCUA is proposing that the Private Keys used to issue Payment Stablecoins, as discussed in section 10 of the GENIUS Act, should be valued at a

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[203] 12 U.S.C. 5903(a)(10)(A)(iii).
[204] 15 U.S.C. 78m, 78o(d).
[205] 12 U.S.C. 5903(a)(10)(A)(iii).
[206] *Id*.

nominal $1.00 valuation. This reporting convention would prevent double counting of the Private Key and the associated Payment Stablecoin reserves. What are the advantages and disadvantages of this approach? Are there specific risks or information gaps related to the custody of these Private Keys that would not be identified by this reporting convention, including for example, where the Covered Custodian of the Private Key used to issue Payment Stablecoins is not also the custodian of all of the associate Payment Stablecoin reserves? Are there alternative methods to avoid double-counting? For example, what are the advantages and disadvantages of valuing the Private Key used to issue a Payment Stablecoin at the par-value of issuance of the associated Payment Stablecoin less the fair market value of any associated Payment Stablecoin reserves that the Covered Custodian holds under custody?

Question 130: Is the change in Control requirement in proposed § 706.205(m) and § 706.111 appropriately calibrated for PPSIs? If not, what changes should the NCUA incorporate into this provision? Should the regulation explicitly provide the consequences for failing to meet the requirements of proposed § 706.205(m) and § 706.111? For example, should the NCUA include a paragraph that would provide that, if a Person acquires Control of a PPSI without following the requirements of § 706.205(m) and § 706.111 before the time for the NCUA's review as provided in § 706.111 has expired or after the NCUA has disapproved the acquisition of Control, the PPSI: (i) must, within 15 calendar days of the acquisition of Control, provide all information required under § 706.111; and (ii) may be subject to supervisory or enforcement actions relating to any concerns arising from the change in Control, consistent with applicable law?

Question 131: What approach should the NCUA and other PPSI regulators take to licensing, examining, and regulating PPSIs that may be considered subsidiaries of multiple types of Insured Depository Institutions or a subsidiary of one or more types of Insured Depository Institutions and also a Federal qualified payment stablecoin issuer? Specifically, should PPSIs be required to obtain multiple licenses in some instances? If multiple licenses are required, should

NCUA provide a process for expedited licensure of a PPSI or rather than require multiple licenses, rely on the licensure of another Primary Federal payment stablecoin regulator, if the PPSI has already been licensed or approved by another regulator? Should proposed § 706.205(o) expressly provide for avoidance of duplication of examination activities, reporting requirements, and requests for information to address the prospect of a PPSI having an ownership structure that subjects the issuer to the jurisdiction of both the NCUA and another primary Federal payment stablecoin regulator? If so, what should be the scope of NCUA examination, reporting, and supervision? If it is not appropriate to address the prospect of a PPSI having an ownership structure that subjects the issuer to the jurisdiction of both the NCUA and another primary Federal payment stablecoin regulator, why is it not appropriate? Should such ownership structures be addressed through separate guidance or agreements? Should such ownership structures be impermissible? Or are they unlikely to occur in practice?

E. Subpart C—Custody

Section 10 of the GENIUS Act imposes requirements on any Person seeking to provide custodial or safekeeping services for Payment Stablecoin reserves, Payment Stablecoins used as collateral, or the Private Keys used to issue Payment Stablecoins.[207] Among other things, section 10 of the GENIUS Act requires such Persons to be subject to supervision or regulation by a Federal or State supervisor, to treat covered assets as Customer property, to separately account for and not commingle covered assets unless permitted under a listed exception, and to provide their supervisor with certain regulatory information as determined by that supervisor. Section 10 also provides claims of Payment Stablecoin holders priority over other claims on Persons providing custody and exempts certain Persons providing hardware or software services from the requirements of section 10.

The proposal would (1) establish relevant defined terms for purposes of subpart C to clarify the scope of custodial services to which subpart C would apply; (2) set minimum

[207] 12 U.S.C. 5909.

principles-based requirements for NCUA-supervised institutions related to their provision of custodial or safekeeping services to the assets described in Section 10 of the GENIUS Act that are appropriate to protect such custodied assets from the claims of creditors of the institution; and (3) implement other requirements and exclusions of the GENIUS Act.

1. § 706.301. Definitions

The NCUA is proposing to define the assets for which the provision of custodial or safekeeping services trigger the requirements of the GENIUS Act as "Covered Assets." This term would include the assets described in section 10(a) of the GENIUS Act that compose the Payment Stablecoin reserves (discussed above), any Payment Stablecoin used as collateral, and the Private Keys used to issue Payment Stablecoins.[208]

The NCUA is also proposing to include in the definition of Covered Assets any cash or other property of a PPSI, as defined in the GENIUS Act, received by the custodian in the course of provision of custodial or safekeeping services contemplated under the GENIUS Act. Sections 10(b) and (c) of the GENIUS Act each apply the GENIUS Act's custodial requirements not only to the custody of Payment Stablecoin reserves, Payment Stablecoins used as collateral, and the Private Keys used to issue Payment Stablecoins but also to "cash[ ] and other property" of a custody Customer of one of those assets.[209]

"Cash [] and other property," as used in section 10 of the GENIUS Act, appears to refer to cash and other property that a Covered Custodian (defined and discussed below) may receive as custodial property of its Customers, but only to the extent such cash or other property is received in connection with the provision of custodial services for Payment Stablecoin reserves, Payment Stablecoins used as collateral, and the Private Keys used to issue Payment Stablecoins. For example, any interest on Payment Stablecoin Reserve Assets held in custody in a deposit

[208] 12 U.S.C. 5909(a).
[209] 12 U.S.C. 5909(b)-(c).

account or Share Account and credited to a Customer's (*i.e.,* a PPSI) custodial account would be the type of cash and other property subject to the custody requirements of the GENIUS Act.

Thus, under the proposed rule, "Covered Assets" would mean Payment Stablecoin reserves, Payment Stablecoins used as collateral, and Private Keys used to issue Payment Stablecoins, as well as cash and other property received in the course of the provision of custodial or safekeeping services for such assets.

Separately, the NCUA is proposing to define the entities to which the proposed custody requirements would apply as "Covered Custodians." This term would mean a FICU or NCUA-Licensed PPSI to the extent of such Person's provision of custodial or safekeeping services to Covered Customers (as such term is described below) for Covered Assets.

The NCUA is proposing to define the custodial Customers to which the GENIUS Act's protections apply as "Covered Customers." This term would mean a Person for or on whose behalf a Covered Custodian receives, acquires, or holds Covered Assets.

The NCUA is also proposing to define certain other concepts relative to Covered Asset custodial activities. The proposal would define "Applicable Law" for purposes of subpart C as the law of a State or other jurisdiction governing a Covered Custodian's custody relationships, any applicable Federal law governing those relationships, the terms of the Custody Agreement, and any applicable court order. The proposal would define "Custody Agreement" as a legally binding contractual agreement between a Covered Customer, as the principal, and the custodian, as the agent, that establishes the custodian's duties and responsibilities in providing safekeeping and ancillary services to the Covered Customer. The proposal would define "Digital Wallet" as a software program or hardware device that stores and manages the Private Keys associated with a particular unit of a Digital Asset. The proposal would define "Sub-Custodian" as a Person that provides custody and safekeeping services to a Covered Custodian, including through a Digital Wallet for which such Person controls the associated Private Keys, with respect to the Covered

Assets of a Covered Customer for which the Covered Custodian otherwise serves as a custodian under this subpart.[210]

2. § 706.302. Covered Asset Custodial Property Requirements

Proposed § 706.302 would implement certain minimum principles-based requirements applicable to a Covered Custodian's provision of custodial and safekeeping services for Covered Assets to ensure that such Covered Assets are treated and dealt with as belonging to the Covered Customers and protected from claims of the Covered Custodian's creditors, as well as the creditors of any Sub-Custodian, as applicable, or the claims of any Customer's creditors. Under proposed § 706.302(a), a Covered Custodian must separately account for the Covered Assets of each Covered Customer and must treat and deal with those Covered Assets as belonging to such Covered Customer and not as the property of the Covered Custodian. Under proposed § 706.302(b), a Covered Custodian must take appropriate steps to protect the Covered Assets of Covered Customers from the claims of creditors of the Covered Custodian and any Sub-Custodian, as applicable, including through adopting, implementing, and maintaining written policies, procedures, and internal controls that are adequate to comply with Applicable Law and that are commensurate with the Covered Custodian's size, complexity, and risk profile and with the nature of the applicable Covered Assets for which it provides custodial or safekeeping services.

The NCUA believes that setting certain minimum principles-based requirements for the provision of these custody services, regardless of the use of omnibus accounts, is consistent with section 10(b)(2) of the GENIUS Act,[211] which requires that applicable custodians "take such steps as are appropriate to protect the [Covered Assets] of a customer from the claims of creditors of the [custodian]" and section 13 of the GENIUS Act,[212] which grants the NCUA

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[210] A sub-custodian would be subject to the requirements applicable to a custodian under the GENIUS Act, including the requirements under section 10 of the Act (12 U.S.C. 5909).
[211] 12 U.S.C. 5909(b)(2).
[212] 12 U.S.C. 5913.

broad rulemaking authority to implement the GENIUS Act. In considering minimum, principles-based requirements, the NCUA is proposing to require Covered Custodians to take such steps that would typically be expected of a supervised institution as part of sound custodial practices necessary to protect custodied assets from claims of the custodian's creditors.[213]

The NCUA is also proposing in § 706.302(b) to require that a Covered Custodian maintain possession or control of Covered Assets of a Covered Customer that are held directly, including in a Digital Wallet for which the Covered Custodian controls the associated Private Keys. Under the proposal, a Covered Custodian may maintain the Covered Assets of a Covered Customer through the use of a Sub-Custodian if consistent with Applicable Law, provided the Covered Custodian maintains adequate safeguards and internal controls reasonably designed to provide the Covered Custodian with oversight of such Sub-Custodian's compliance with the requirements of this proposed subpart C. Under the proposal, with regards to any Payment Stablecoin or Payment Stablecoin reserve in the form of a tokenized asset held in safekeeping under proposed subpart C, a Covered Custodian, or Sub-Custodian, as applicable, maintains control for purposes of the proposed requirement if it can reasonably demonstrate, consistent with the standard of care established by Applicable Law, that no other party, including the Covered Customer, can transfer the Payment Stablecoin or tokenized asset using a Distributed Ledger without the consent of the custodian or Sub-Custodian, as applicable. This requirement is consistent with past guidance from the other banking agencies on the control of crypto-assets for purposes of safekeeping.[214]

The NCUA intends these principles-based, minimum requirements to be in line with sound custodial management practices that the agency understands are industry standard. An

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[213] To the extent that a Covered Custodian, as an accommodation to a Covered Customer, documents in an account statement or other similar document any additional assets of that Customer for which the Covered Custodian does not provide custodial or safekeeping services, including through use of a Sub-Custodian of the Covered Custodian (commonly referred to as "accommodation assets" or "below the line assets"), the NCUA would not expect such assets to be subject to the requirements of subpart C.

[214] *See* OCC, "Agencies Issue Joint Statement on Risk-Management Considerations For Crypto-Asset Safekeeping," (Jul. 14, 2025), *available at* https://www.occ.gov/news-issuances/news-releases/2025/nr-ia-2025-68.html.

FCU that is a Covered Custodian may not act in a fiduciary capacity. FISCUs' ability to act in a fiduciary capacity will depend upon State law.

The NCUA proposes codifying in proposed § 706.302(c) the exception in section 10(c) of the GENIUS Act to the customer property requirements described in section 10(b).[215] This exception permits a Covered Custodian to withdraw and apply such share of the Covered Assets of a Covered Customer necessary to transfer, adjust, or settle a transaction or transfer of assets applicable to that Covered Customer, including the payment of commissions, taxes, storage, and other charges lawfully accruing in connection with the provision of services to that Covered Customer by the Covered Custodian. The NCUA proposes to specify that any such withdrawal must be consistent with any Applicable Law. For example, the NCUA would expect any such withdrawal to be undertaken only in compliance with the terms of a Covered Customer's written Custody Agreement and that any withdrawal of funds from an omnibus account would be properly recorded as to not implicate the custodial assets of any other Covered Customer.

Finally, proposed § 706.302(d) would clarify, consistent with section 10(c)(2)(D) of the GENIUS Act,[216] that a FICU that provides custodial or safekeeping services for Covered Assets may hold Covered Assets that are in the form of cash on deposit (including funds deposited in Share Accounts), provided such treatment is consistent with Federal law.

3. § 706.303. Use of Omnibus Accounts

Proposed § 706.303(a) would implement the GENIUS Act's requirement in section 10(c) of the Act that a Covered Custodian segregate all Covered Assets of Covered Customers and not commingle them with the assets of the Covered Custodian.[217] As discussed above, the proposal clarifies that this requirement does not apply in the case of a FICU that provides custodial or safekeeping services for covered assets that are in the form of cash to the extent the FICU holds

[215] 12 U.S.C. 5909(c).
[216] 12 U.S.C. 5909(c)(2)(D).
[217] 12 U.S.C. 5909(c).

such cash in the form of cash on deposit (including funds deposited in Share Accounts), provided such treatment is consistent with Federal law.

Proposed § 706.303(b) sets the terms by which Covered Custodians may use omnibus accounts consistent with the GENIUS Act's requirements to separately account for, treat as, and deal with custodied Covered Assets as belonging to Covered Customers. The NCUA is proposing to allow any Covered Custodian to commingle the Covered Assets of multiple Covered Customers in one or more omnibus accounts, to the extent that the steps it has taken pursuant to proposed § 706.302(b) are adequate to maintain safe and sound practices for the use of omnibus accounts, and to the extent that the use of omnibus accounts is consistent with Applicable Law.

4. Reporting

The NCUA is considering how to implement any additional reporting requirements in subpart C pursuant to section 10(d) of the GENIUS Act, which requires that a Covered Custodian submit to the NCUA certain information "in such form and manner as [the NCUA] shall determine."[218] For Covered Custodians that are FICUs, the NCUA plans to issue updates to the NCUA Form 5300, Call Report, or NCUA Form 4501A, Profile, to collect information on FICUs' custodial businesses.[219] For Covered Custodians that are NCUA-Licensed PPSIs, the NCUA proposes to rely on such entities' reporting pursuant to section 6(a)(2) of the GENIUS Act's reporting requirements[220] as part of the PPSIs' quarterly report on financial condition discussed in proposed § 706.205.[221] The NCUA seeks comment on whether this is the most

[218] 12 U.S.C. 5909(d).
[219] Sections 106 and 202 of the Federal Credit Union Act require federally insured credit unions (FICUs) to make financial and other reports to the NCUA. Section 741.5 describes the submission method FICUs must use to provide information to NCUA. NCUA Form 5300, Call Report, is used to file quarterly financial and statistical data through NCUA's online portal, CUOnline. NCUA Form 4501A, Profile, is used to collect non-financial information on credit union operations through NCUA's online portal, CUOnline.
[220] 12 U.S.C. 5905(a)(2).
[221] As noted above, section 10(d) of the GENIUS Act (12 U.S.C. 5909(d)) provides an additional statutory grant of authority for this reporting requirement.

efficient and effective way to collect such information concerning a Covered Custodian's business operations as well as their processes to protect Customer assets.[222]

Nonetheless, requiring Covered Custodian-specific reporting outside of the context of a Call Report may be appropriate. Specifically, the NCUA is considering requiring Covered Custodians to report on a separate form maintained by the NCUA the following information: (1) total Covered Assets under custody, and (2) total Payment Stablecoin reserves under custody. For Payment Stablecoin reserves under custody, the NCUA is further considering requiring Covered Custodians to report the following: (a) total Payment Stablecoin reserves under custody for (i) an Affiliate and (ii) third parties; (b) total Payment Stablecoin reserves held in a deposit account or Share Account at (i) the Covered Custodian and (ii) a third-party IDI; (c) total Payment Stablecoin reserves held in a deposit account or Share Account that are not covered by FDIC or NCUA insurance at (i) the Covered Custodian and (ii) a third party IDI; and (d) total Payment Stablecoin reserves held in each of the categories listed in section 4(a)(1)(A)(i)-(viii) of the GENIUS Act.[223]

5. § 706.304. Self-Custody Hardware and Software Exclusion.

The proposal implements section 10(e) of the GENIUS Act, which provides that the requirements of section 10 of the Act do not apply to any Person solely on the basis that such Person engages in the business of providing hardware or software to facilitate a Customer's own custody or safekeeping of the Customer's Payment Stablecoins or Private Keys.[224] In proposed § 706.304, the NCUA proposes to clarify that the requirements of this proposed subpart C do not apply to any FICU or NCUA-Licensed PPSI solely on the basis that such entity engages in the business of providing hardware or software to facilitate a Person's or entity's self-custody of

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[222] Consistent with the OCC Proposal, the NCUA believes that reporting the Private Key used to issue a Payment Stablecoin held in custody at a $1.00 book value would be consistent with industry practice unless the methodology for determining market value is otherwise set by applicable law. *See, e.g.,* OCC, Letter from Kerri Corn, Director for Credit and Market Risk (June 20, 2007), *available at* https://www.occ.treas.gov/topics/supervision-and-examination/capital-markets/asset-management/corporate-trust/memo-misc-schedule-rc-t.pdf (letter to the American Bankers Association regarding owner trustee fiduciary accounts reported on Schedule RC-T).
[223] 12 U.S.C. 5903(a)(1)(A)(i)-(viii).
[224] 12 U.S.C. 5909(e).

their Payment Stablecoins or Private Keys. The requirements could nonetheless apply if, for example, an entity controls or holds itself out as controlling such Payment Stablecoins or Private Keys, or provides, or holds itself out as providing safekeeping or custodial services, including services that are ancillary or incidental to its custodial powers, for such Payment Stablecoins or Private Keys.

6. Request for Comment

The NCUA requests feedback on all aspects of the proposed rule, including:

Question 132: Are the proposed definitions for terms relevant to this section appropriate and sufficiently clear? Would it be helpful to define any other terms?

Question 133: The NCUA has interpreted "cash and other property" to refer to the cash and other property that a Covered Custodian may receive as custodial property of its Customers, but only to the extent such cash or other property is received in connection with the provision of custodial services for the GENIUS Act's three core custody assets. Is this the appropriate approach? Should the NCUA take a broader view of what constitutes "cash and other property"? What are the costs and benefits of such an approach? Does the proposal appropriately address the different requirements for noncash Covered Assets and "cash on deposit" Covered Assets held at an IDI?

Question 134: The NCUA is proposing to define Covered Assets in such a way that the requirements of sections 10(a), (b), and (c) of the GENIUS Act would apply to all Covered Assets and is proposing to apply the substantive requirements of those sections as a connected set of requirements.[225] However, sections 10(a), (b), and (c) of the Act use slightly different wording when describing the assets to which each subsection applies and some of the substantive requirements that apply.[226] The NCUA believes that the provisions should be read together to

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[225] 12 U.S.C. 5909(a)-(c).

[226] For example, Section 10(a) of the Act refers to "the payment stablecoin reserve, the payment stablecoins used as collateral, or the private keys." 12 U.S.C. 5909(a). Section 10(b) refers to "the payment stablecoins, private keys, cash, and other property." 12 U.S.C. 5909(b). Section 10(c) refers to "[p]ayment stablecoin reserves, payment stablecoins, cash, and other property." 12 U.S.C. 5909(c).

cover the same set of assets and to provide a cogent and harmonized set of requirements for Covered Custodians.[227] Instead of the proposed approach, should the NCUA use the precise statutory language regarding the scope of assets covered separately in paragraphs (a), (b), and (c)? What are the advantages or disadvantages of doing so?

Question 135: Proposed subpart C would implement section 10 of the GENIUS Act with respect to entities that are regulated by the NCUA.[228] Are there issues that the NCUA should bear in mind if an NCUA-regulated entity holds reserve assets on behalf of a PPSI that is not regulated by the NCUA and may not be familiar with the NCUA's implementation of section 10 of the GENIUS Act?

Question 136: The NCUA is proposing applying these principles-based requirements on Covered Custodians subject to NCUA supervision, rather than requiring NCUA-supervised institutions that seek to custody a Covered Asset to only custody such assets with a custodian that can demonstrate it complies with certain minimum requirements. What are the costs and benefits of this approach, including with regards to administrability, jurisdiction, and the promotion of fair competition?

Question 137: The NCUA proposes principles-based requirements in line with sound custodial management practices that the agency understands are industry standard. Does the proposal accurately capture sound custodial management practices that are industry standard?

Question 138: Does the proposal provide enough detail regarding what steps are appropriate for a Covered Custodian to protect the Covered Assets of Covered Customers from the claims of creditors of the Covered Custodian? Would more prescriptive or specific requirements be appropriate to implement the requirements of the GENIUS Act? For example, should the NCUA require a Covered Custodian to take appropriate steps to protect the Covered Assets of Covered Customers from the claims of creditors of the Covered Custodian, including

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[227] For example, sections 10(b) and (c) of the Act refer to section 10(a), suggesting that the provisions are meant to be read together to cover the same set of assets.
[228] 12 U.S.C. 5909.

through adopting, implementing, and maintaining written policies, procedures, and internal controls adequate for (A) the safekeeping of Covered Assets of Covered Customers; (B) the documentation of Covered Customer relationships through one or more written Custody Agreements; (C) recording and verifying the Covered Assets of Covered Customers; and (D) the conducting of due diligence in the selection of and periodic monitoring of Sub-Custodians, in each case commensurate with the Covered Custodian's size, complexity, and risk profile and with the nature of the applicable Covered Assets in its Covered Customer relationships? What are the costs and benefits of prescriptive versus a principles-based approach?

Question 139: Is it sufficiently clear in a custodial relationship when and for what assets the minimum, principles-based requirements of subpart C would apply? For example, are there circumstances where a custodian may be unaware that Payment Stablecoin assets held in an account are being used as collateral and potentially subject to the requirements of subpart C?

Question 140: The proposed rule describes how a custodian maintains control of a Payment Stablecoin or tokenized Payment Stablecoin Reserve Assets. Is this description appropriately calibrated? Are there other means by which a custodian should be deemed to have demonstrated control over these types of assets?

Question 141: Are there additional considerations the NCUA should take into account regarding a Covered Custodian's use of an omnibus account? For example, should the NCUA consider a high-level principals-based approach to apply generally to a Covered Custodian's provision of custodial or safekeeping services to Covered Customers for Covered Assets while utilizing a more detailed regulatory framework regarding a Covered Custodian's use of omnibus accounts?

Question 142: Regarding the proposed rule governing the withdrawal of custodial Covered Assets to pay certain commissions, taxes, storage, and other charges, should the NCUA require any more prescriptive Customer protection requirements, such as those designed to ensure that such withdrawals do not cause any reserve to fall below any minimum coverage of a

Payment Stablecoin? What are the costs and benefits of these or any similar approach? For example, in order to implement an effective compliance system, would such a requirement impose undue burdens on a custodian from withdrawing any permitted funds from a custodial account that contains Payment Stablecoin reserves?

Question 143: Section 10(c)(3) of the GENIUS Act provides a priority regime regarding the claims of Covered Customers against a Covered Custodian with regards to any Payment Stablecoins used as collateral. The section also allows Covered Customers to expressly waive this priority. What are the potential benefits and drawbacks of such a priority regime, including with regards to whether it may amplify losses to Payment Stablecoin issuers on Payment Stablecoin reserves that are custodied by a Covered Custodian that provides a diversified custodial business should there be a shortfall in a Covered Custodian's custodied assets? What market practices do commenters believe are likely to arise regarding the use of the contractual provisions that waive a Covered Customer's priority regarding Payment Stablecoins used as collateral that are held in custody? To what extent should the NCUA consider either providing guidance on the use of such contractual provisions or requiring Covered Custodians to use such contractual provisions in their Custody Agreements? How are Customer waivers in relation to Covered Custodians likely to impact the resolution of PPSIs? For example, would they lead to additional complications in determining the priority of claims?

Question 144: The GENIUS Act provides an exclusion from the custodial requirements to any Person solely on the basis that such Person engages in the business of providing hardware or software to facilitate a Customer's own custody or safekeeping of the Customer's Payment Stablecoins or Private Keys. The NCUA proposes to clarify that it would not consider certain activities to constitute "solely" providing hardware or software to facilitate custody or safekeeping of Payment Stablecoins or Private Keys. Should the NCUA consider implementing any other language to prevent the exception from being used to evade the custodial requirements of the GENIUS Act? Alternatively, could an NCUA-supervised institution provide ancillary

custodial services to a user of such hardware or software (*e.g.,* facilitating the Customer's crypto-asset and fiat currency exchange transactions, transaction settlement, trade execution, recordkeeping, valuation, tax services, reporting, or other appropriate services) while avoiding the minimum, principles-based requirements of the proposal?

Question 145: Are there particular circumstances for which the NCUA should provide additional clarification as to the application of subpart C or the applicability of any exception (*e.g.,* regarding Payment Stablecoins locked in a smart contract for purposes of "wrapping" the Payment Stablecoin for use on an unsupported blockchain)?

Question 146: In order to help ensure that a PPSI is able to meet redemptions on a timely basis, should the NCUA require that any Custody Agreement a Covered Custodian enters into with a PPSI provide for prompt release of any custodied Covered Assets to the Covered Customer's control? For example, should a Custody Agreement require that a Covered Custodian have the ability to transfer control of Covered Assets comprising Payment Stablecoin reserves, or execute and settle at the Covered Customer's direction any such assets, within a specific timeframe? What are the costs and benefits of any such approach?

Question 147: To what extent are the portions of the reports required under proposed § 706.205 relevant to custodial activities appropriate to ensure that the NCUA possesses the information necessary to supervise Covered Custodians? If other forms of reporting would be helpful, what are they? If other types of information would be helpful, what are they? What are the costs and benefits of more detailed reporting requirements?

Question 148: Does the proposed approach regarding custody of Covered Assets proposed in subpart C, or any alternative approach discussed in comments or suggested by commenters, pose any concerns regarding fair competition between Covered Custodians and entities that are otherwise permissible custodians under section 10(a) of the GENIUS Act but which are not supervised by the NCUA?

F. Subpart D—Capital and Operational Backstop

Section 4(a)(4)(A)(i) of the GENIUS Act requires the Board to establish capital requirements for PPSIs.[229] The capital requirements must be tailored to the business model and risk profile of PPSIs and not exceed requirements sufficient to ensure the ongoing operations of PPSIs. Consistent with the statutory requirement, and the capital requirements proposed by the OCC, the NCUA is proposing a minimum capital requirement that will be tailored to the business model and risk profile of an NCUA-Licensed PPSI. The NCUA's proposed approach for capital focuses primarily on the operational risk of Payment Stablecoin issuers.

Because of the novelty of Payment Stablecoins and various business models for PPSIs being discussed among industry participants, the NCUA believes that setting capital requirements based on individual evaluations of prospective PPSIs would be most appropriate at this time. Therefore, the overall approach in the proposed rule would provide for an individualized evaluation of each prospective PPSI. The NCUA would consider quantitative and qualitative factors including, but not limited to, financial projections, fixed and variable expenses, the nature of fiduciary products and services being proposed, and discussions with organizers when considering the appropriate capital amount for each PPSI.

In addition to establishing the initial capital requirement at licensing, all PPSIs must develop a process to assess and meet their capital requirements,[230] with evaluation by the NCUA through the examination process. As the NCUA gains additional experience and data from reviewing applications for prospective PPSIs and assessments performed by established PPSIs with varying business models and risk profiles, the NCUA may revise its licensing procedures or this rule to incorporate more standardized, objective capital requirements. The NCUA discusses potential options in the following sections and questions and invites feedback on how these options could be revised or incorporated into a final rule, either as elements of a capital requirement, liquidity requirement, or otherwise, because of the intertwined nature of capital and

[229] 12 U.S.C. 5903(a)(4)(A)(i).
[230] *See*, proposed § 706.401(a)(2)(ii).

liquidity. For example, capital is generally used to support an entity's risk profile, business strategies, future growth prospects, and provide a cushion against unexpected losses, while liquidity is used to meet an entity's obligations when they come due. An entity that experiences unexpected losses that reduce the holdings of its liquid assets will have less liquidity to satisfy current liabilities, while an entity that needs to use liquidity to satisfy current liabilities may be more limited in its business strategies or future growth prospects.

1. § 706.400. Capital Elements

Under the proposed rule, regulatory capital for PPSIs would consist of two capital elements, common equity tier 1 capital and additional tier 1 capital. These two elements are generally consistent with the capital elements for banking organizations under their respective capital requirements, however they are different than regulatory capital requirements for FICUs.[231] As mutuals, FICUs do not issue stock instruments and therefore must primarily rely on retained earnings to accumulate capital. PPSIs, however, will not likely be structured as mutual institutions, and instead will likely have ownership through stock certificates. Therefore, the NCUA believes it is appropriate to structure PPSI minimum capital requirements similarly to banking organizations and not analogous to FICU capital requirements.

The proposed PPSI capital elements primarily consist of common equity, retained earnings, and noncumulative perpetual preferred stock that meet certain terms designed to ensure significant loss-absorbing capabilities. For example, the proposed terms include provisions that require that the paid-in amount is equity under GAAP, that limit dividends, and that prohibit a PPSI from funding its own equity instruments to ensure that there is a source of external capital to support the PPSI's operations.

Common equity tier 1 capital would consist of common stock instruments (par value, if any, and related surplus), retained earnings, and any accumulated other comprehensive income (AOCI), all as reported under GAAP. Common stock instruments would need to meet various

[231] See, 12 CFR part 3 (OCC); 12 CFR part 217 (FRB); and 12 CFR part 324 (FDIC).

proposed criteria, including being the most subordinated claim on the PPSI's assets, being fully paid-in, having no maturity date, and not being redeemable except with prior NCUA approval. Any dividends must be fully discretionary, paid out only after fulfillment of any other legal or contractual obligations, and from positive retained earnings. In addition, the holders of the instruments must bear losses equally, proportionally, and simultaneously with other holders of common stock instruments. As the most subordinated tier of regulatory capital, common equity tier 1 exhibits the most loss absorbency, as any dividends are discretionary and there is no expectation of redemption or repurchase of the instrument, ensuring any operating funds generated can be used for any other business need of the issuer.

The NCUA also is proposing to include AOCI as a component of common equity tier 1 capital. This treatment is not consistent with the NCUA's capital framework in 12 CFR part 702, however, the NCUA is not proposing to permit any neutralization of AOCI. The NCUA permits neutralization of components of AOCI under part 702 in part to reduce regulatory capital volatility associated with changes in value of available-for-sale fixed income securities due to changes in interest rates. These changes in value due to interest rate movements are generally more pronounced the longer the remaining maturity of the securities. As PPSIs can only hold securities with remaining maturities of 93 days or less as reserve assets, the change in value of these securities due to interest rate movements likely would generate immaterial amounts of AOCI and therefore neutralization is not warranted to reduce volatility.

Additional tier 1 capital would consist of instruments that meet a different set of proposed criteria, generally consistent with noncumulative perpetual preferred stock issuances that are classified as equity under GAAP. Generally, these instruments would be subordinated to all claims except those of common shareholders. The instruments could not have a maturity date but may be callable after at least five years with prior approval of the NCUA. To provide additional flexibility to the issuer when needed, the terms of the instrument must provide for the payment of dividends only if and when declared by the PPSI board of directors. This feature provides the

PPSI the ability to retain earnings and capital if needed. These provisions all help ensure that the instrument provides significant loss absorbency by limiting the PPSI's obligations to holders.

The NCUA's capital framework also permits inclusion of subordinated debt instruments in certain circumstances[232] and certain allowances for credit losses. The banking agencies also permit the inclusion of subordinated debt instruments as tier 2 capital instruments. However, the NCUA is not proposing to adopt subordinated debt as a capital component for PPSIs. Allowing a PPSI to employ subordinated debt instruments as capital may incentivize a PPSI to take on additional leverage with a stated repayment obligation, which increases the pressure and risk on the PPSI to generate enough income to repay that obligation instead of increasing the ability of the stablecoin issuer to absorb losses. Separately, as PPSIs would not be providing loans or other credit to Customers, they likely would not have any allowance for credit losses.

The proposed rule would not require any specific ratio between the regulatory capital elements or minimum amounts of any capital element. The NCUA does not believe such a structure for minimum capital is necessary for PPSIs based on their variety of business models. The proposed rule also would not require any specific deductions from regulatory capital instruments for PPSIs. The NCUA's current rules in 12 CFR part 702 require deductions from the definition of capital for purposes of the risk-based capital framework, but does not require deductions from the calculation of net worth. In general, the risk-based capital rule requires deductions because the potentially volatile valuation of those assets reduces their ability to absorb losses. While goodwill and other intangible assets may exhibit similar valuation volatility on the balance sheets of PPSIs, these risks may be addressed though the backstop requirement and proposed requirements around risk management, capital adequacy assessments, and liquidity. For example, a PPSI that holds a significant amount of goodwill from the acquisition of

[232] All complex FICUs may include subordinated debt instruments in risk-based capital under 12 CFR 702.104(b)(1)(vii). Low-income FICUs may include subordinated debt instruments as a component of net worth under 12 CFR 702.2 (definition of net worth).

another entity would be expected to appropriately incorporate in its capital adequacy assessment the risk that the goodwill may become impaired and reduce retained earnings.

However, the NCUA is also considering a deduction framework, which could be more limited than the deductions required for FICUs under the risk-based capital framework. A more limited framework may focus deductions on goodwill and other intangible assets, which may be difficult to value and would be unavailable to satisfy redemption claims of Payment Stablecoin holders or support the PPSI during a business disruption. Alternately, the NCUA is considering a simplified capital instrument framework for PPSIs. Under this framework, any balance sheet account that qualifies as equity under GAAP would qualify as a capital element, including common stock, retained earnings, AOCI, and certain preferred stock. This alternative could be easier to implement as it relies on the GAAP definitions of equity without layering on additional requirements. However, those additional requirements reduce the risk to Payment Stablecoin holders and ensure that the equity instruments are sufficiently loss absorbing. For example, the additional proposed requirements help ensure a PPSI does not aggressively redeem equity instruments with funds that are necessary to support the liquidity or operations of the Payment Stablecoin and associated reserves, or make loans to potential shareholders to purchase stock, which provides no loss absorbency. The NCUA could also consider a framework based on tangible capital, which could start with GAAP equity, but deduct any intangible assets from that amount. This approach could address the risk that a PPSI invests material amounts of capital in generally illiquid and potentially volatile or difficult to value intangible assets. These assets would likely be difficult to liquidate if needed to address business disruptions. However, the proposed backstop may be sufficient to address these risks.

2. § 706.401. Minimum Capital Calculation

The NCUA is proposing to establish a minimum capital requirement framework based on the lifecycle of the PPSI. Under this framework, the NCUA will establish the minimum capital requirement for a PPSI as part of the licensing process that will apply for a minimum timeframe,

generally three years. The NCUA intends to establish a monetary capital amount for each PPSI that must be maintained and a portion of which must be maintained in certain liquid assets. Under this approach, the NCUA would consider factors such as projected revenues and expenses, cash burn rates, and expenditures necessary to implement the proposed business plan and activities of the applicant. This analysis may include various scenarios based on projected Payment Stablecoin issuance volumes, planned composition of reserves, and projected returns on those reserves in different interest rate environments. During this time, and afterward, the PPSI also would be required to assess its capital adequacy and maintain an amount of capital that is commensurate with its business model and risk profile, subject to review by the NCUA.

a. De Novo Capital Requirement

Under proposed § 706.401, the initial minimum capital requirement would apply during the "de novo period," generally the three-year period following licensing by the NCUA of the PPSI to issue Payment Stablecoins. This timeframe may be extended or shortened by the NCUA. Generally, the NCUA would expect to lengthen the de novo period based on changes to the business model or activities of the issuer, excessive volatility in issuance and redemptions of the Payment Stablecoin, unexpected operating losses, weak earnings, poor risk management, or violations of the GENIUS Act or implementing rules. The NCUA would expect to shorten the de novo period for an entity that has a history of operating a stablecoin business prior to the effective date of the NCUA's final rule implementing the GENIUS Act or for a PPSI that converts to an NCUA-Licensed PPSI charter from another primary Federal payment stablecoin regulator.

During the de novo period, the requirements may be adjusted by the NCUA based on the actual operations of the PPSI compared to projections or as part of the licensing conditions. The NCUA would expect to consider the proposed PPSI's risk profile, business strategy, future growth prospects, and cushions for unexpected losses when evaluating the appropriate capital amount during the de novo period. At licensing and during the de novo period, the NCUA would

consider factors including: the composition, stability, and direction of revenue; the level and composition of expenses; the level of retained earnings; the quantity and direction of strategic risk; the quality of management processes, including the adequacy of internal and external audit, internal controls, and compliance management; the quantity of transaction risk from delivery and administration of asset management products and services; and the impact of external factors, including economic conditions and evolving technology.

Under proposed § 706.401(a)(1)(i)(B), the NCUA is also proposing a floor of $5 million on the minimum capital requirement during the de novo period. This floor is primarily intended to ensure that every PPSI has sufficient resources to support initial operations, particularly to cover the losses that are expected to occur early in the startup phase of a new stablecoin. The $5 million floor is consistent with the OCC's proposed rule and the OCC's experience with chartering de novo national trust banks seeking to provide stablecoin programs.[233]

b. Ongoing Capital Requirement

The proposed rule would require all PPSIs to calculate a minimum capital requirement based on an evaluation of the risks associated with its business model and risk profile. This amount would be based on estimates submitted during the application phase, and after approval, this amount must incorporate the operating history of the PPSI and loss experienced from all sources, including operational risk. The NCUA will review and monitor this requirement and the amount of capital held by the PPSI as part of the examination process. The amount of capital held by the PPSI must appropriately incorporate the operating history and operational risk of the PPSI, consistent with the standards described above that the NCUA uses to determine the capital requirement for de novo Payment Stablecoin issuers. The NCUA is not currently proposing any floors on the minimum capital requirement or frameworks for determining a minimum capital requirement for those risks in the rule text, but has asked questions on possible options the NCUA could consider adopting in a final rule or as part of a future rulemaking. For the final rule,

[233] 91 FR 10202 (Mar. 2, 2026).

the NCUA may consider implementing a framework for determining more objective capital requirements as the industry evolves and PPSIs establish longer operating histories.

c. Operational Backstop

The NCUA is proposing that a PPSI hold a designated pool of highly liquid assets to maintain the ongoing operations of the PPSI during a business disruption, referred to as the operational backstop. This proposed backstop assets would be independent of the de novo or ongoing capital requirements and from any assets held as Reserve Assets. The purpose of the operational backstop is to help ensure that during a business disruption that impacts operations of the PPSI, a liquid pool of identifiable assets exists to allow the PPSI to meet short-term liquidity needs, stabilize the issuer after the disruption, and continue or resume normal operations. The operational backstop would be calculated based on the actual total expenses of the PPSI over the past 12 months. These expenses, including for utilities, data processing, and salaries, are highly correlated with the PPSI's ability to maintain the operations of its Payment Stablecoin and stabilize from a business disruption. At a minimum, the operational backstop provides a runway for the PPSI to evaluate the source of the disruption and potential responses without needing to take urgent action due to lack of funds. The amount of the operational backstop would be calculated each quarter, based on the PPSI's total expenses as reported in the four most recent quarterly reports filed. For de novo PPSIs, the initial requirement would be based on reasonable expense projections and adjusted each quarter based on actual amounts for that quarter.

The operational backstop amount would need to be held as readily available liquid assets to ensure that funds are available quickly during a business disruption. Specifically, this amount would need to be held in U.S. currency directly or at a Federal Reserve Bank, as deposits and/or funds in Share Accounts that are payable on demand at a U.S. IDI, with those deposits and/or funds in Share Accounts fully insured by the FDIC or NCUA, or in U.S. Treasuries that meet the requirements to qualify as Reserve Assets, which could be readily liquidated. The assets associated with the operational backstop would need to be separately identified in the reports

filed under proposed § 706.205, and in any other financial statements of the PPSI, from any Reserve Assets required to support the Payment Stablecoin and any other assets of the PPSI on any reports filed under proposed § 706.205.

While the NCUA considered adjusting the operational backstop to more specifically identify and categorize expenses used in calculating the amount, this approach would create additional burden for PPSIs to track specific expenses, as well as increase the risk of gaming the backstop by PPSIs attempting to reclassify ongoing operating expenses as one-time items. The NCUA also does not want to create incentives or disincentives for different business decisions, such as to purchase or lease assets, by excluding non-cash expenses like depreciation from total expenses.

The proposed minimum capital amount, the capital held by the PPSI, and the operational backstop would be calculated as of the last day of each quarter and disclosed in the reports required under § 706.205 of the proposed rule. Under the proposal, if a PPSI does not meet the minimum capital requirement or have sufficient liquid assets to meet the operational backstop at the end of a quarter, it must make efforts to satisfy the capital requirement and backstop by the end of the following quarter. These efforts may include raising additional capital, reducing the size of the operations or risk profile of the issuer, or converting less-liquid assets into highly liquid assets to satisfy the backstop. Until the capital and backstop requirements are satisfied, the PPSI would be restricted from issuing any new Payment Stablecoins, except as necessary to facilitate a transfer of Payment Stablecoins from one Distributed Ledger to another and provided that the Net Outstanding Issuance Value does not increase so that the PPSIs can use their liquidity to address any issues in times of stress instead of further growing the risk by increasing the size of the Payment Stablecoin. If a PPSI fails to meet its capital or backstop requirements for two consecutive quarters, it must begin liquidating Reserve Assets and redeeming outstanding Payment Stablecoins at the start of the following month and can no longer issue any new Payment Stablecoins going forward. A PPSI that is required to redeem its Payment Stablecoins

due to a shortage of capital or liquid assets for the backstop would be prohibited from charging Customers a fee for redeeming those Payment Stablecoins. For example, if a PPSI did not have sufficient capital as of June 30, it would be prevented from issuing new Payment Stablecoins, on a net basis, starting in July. If the PPSI increased its capital to meet the minimum requirement on July 8, it could resume issuing stablecoins on July 8. In contrast, if the PPSI did not satisfy its capital or backstop requirements at any time during the quarter and did not meet these requirements again on September 30, it would need to begin redemption of its Payment Stablecoins starting on October 1, regardless of whether it raises additional capital or meets the operational backstop requirements going forward. Due to the nature of PPSIs and the potential for rapid inflows or outflows of funds to issue or redeem Payment Stablecoins, the NCUA believes a timely response is warranted when there is a failure to meet minimum capital and backstop requirements to ensure that a growing Outstanding Issuance Value is appropriately backed by sufficient capital to address the risks associated with the PPSI and any business disruptions. The provisions to limit issuance of new Payment Stablecoins, and potentially redeem outstanding Payment Stablecoins, are intended to ensure that a PPSI maintains an adequate capital base and operational backstop relative to its risks and operations. The proposed quarterly calculation and assessment aligns with the proposed frequency of reporting under proposed § 706.205(i). However, more frequent capital calculations and assessments may be appropriate due to potential fluctuations in stablecoin demand or other factors.

3. § 706.402. Individual Additional Capital or Backstop Requirement

The NCUA expects that a PPSI will appropriately calculate a capital requirement under proposed § 706.401(a) and (b) and would expect to resolve any concerns with the capital adequacy assessment through the examination process. However, in cases where the PPSI's internal capital adequacy assessment is significantly deficient in addressing the capital needs of the PPSI to ensure ongoing operations, the NCUA is proposing a process to impose an individual

additional capital or backstop requirement on the PPSI. This process is permitted by section 4(a)(4)(B)(i) of the GENIUS Act.[234]

The proposed rule includes a list of illustrative examples of when the NCUA may consider imposing an individual additional capital or backstop requirement, such as when a PPSI is facing a significant increase in operational risks, excessive volatility in stablecoin issuance or redemptions and the PPSI's management lacks a robust plan to address that volatility, or for additional risks that the PPSI is not appropriately managing or reflecting in the ongoing capital calculation.

Under the proposal, the NCUA would notify the PPSI of the proposed individual additional capital or backstop requirement, including a justification for that requirement and a target achievement date. The board and management of the PPSI generally would have 30 days to respond to that notice. The NCUA may change this time period, as appropriate, based on the condition of the PPSI. For example, the time period may be shortened due to the severity of the underlying issues and need for additional capital or backstop. After the response period, the NCUA would issue a final decision establishing an individual additional capital or backstop requirement for that PPSI, which would remain in effect until modified or rescinded by the NCUA. The decision may require the PPSI to develop and submit to the NCUA, within a specified time period, an acceptable plan to reach the additional capital or backstop requirement established for the PPSI. If, after the NCUA renders its decision, there is a significant change in the circumstances that materially affects the PPSI's capital adequacy or its ability to reach the required capital or backstop requirement, the PPSI may request, or the NCUA may propose to the PPSI, a change in the additional capital or backstop requirement for the PPSI, the date when the minimum must be achieved, or the PPSI's plan (if applicable). The NCUA may decline to consider proposals that are not based on a significant change in circumstances or that are

[234] 12 U.S. 5903(a)(4)(B)(i).

repetitive or frivolous. Pending a decision on reconsideration, the NCUA's original decision and any plan required under that decision shall continue in full force and effect.

4. Proposed Adjustments to the NCUA's Capital Rule (12 CFR Part 702 and 704)

Section 4(a)(4)(C)(iii) of the GENIUS Act specifies that for stablecoin issuers owned by IDIs, the appropriate Federal banking agency (as defined in 12 U.S.C. 1813(q)), which does not include the NCUA, cannot require an IDI that is consolidated with a PPSI to hold any amount of regulatory capital with respect to such PPSI and its assets and operations in excess of the capital that such PPSI must maintain under the capital regulations promulgated under the GENIUS Act.[235] While the NCUA is not an appropriate Federal banking agency under the Federal Deposit Insurance Act, the NCUA is issuing similar proposed rules as the OCC regarding deconsolidation of PPSI subsidiaries for consistency. Therefore, for regulatory capital purposes, the NCUA is proposing to amend 12 CFR parts 702 (natural person FICUs) and 704 (corporate FICUs) to specify that a FICU that owns a consolidated PPSI under GAAP must deconsolidate the PPSI for regulatory capital purposes.

The FICU must deduct any interest in retained earnings of the PPSI from its net worth and, for complex credit unions calculating their capital under the risk-based capital framework, from the capital elements for the risk-based capital numerator.[236] This amount would also be deducted from total assets or total risk-weighted assets for the denominator. This interest reflects the FICU's share of retained earnings of the PPSI that have not been paid out as dividends, and the deduction ensures that the same amount would not count as capital at both the PPSI and its parent FICU. Once earnings from the subsidiary are paid as dividends to the parent FICU, those funds are available for general uses of the FICU and no longer count as capital of the PPSI.

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[235] 12 U.S.C. 5903(a)(4)(C)(iii).

[236] The OCC's proposal requires deduction from common equity tier 1 capital. FICUs, however, as mutual institutions do not have common equity (stock certificates) and instead would deduct consolidated interests in the PPSI from the numerator, either net worth or its risk-based capital numerator, as applicable.

Finally, any remaining assets associated with the PPSI (after deducting its share of retained earnings), such as investments in or intercompany receivables from a PPSI, would be excluded when calculating the FICU's total assets or risk-weighted assets, as applicable.

To the extent that a subsidiary PPSI incurs net losses, there would be no adjustment to increase its parent FICU's assets or retained earnings to offset those losses, so as to not overstate the resources and financial condition of the parent. As proposed, this deconsolidation and deduction approach would ensure that any assets and capital associated with the PPSI are not double-counted when included in risk-based or net worth ratio calculations at the parent FICU, and that any retained earnings of the PPSI are not double-counted as capital that can be used by the parent FICU.

5. Request for Comment

The NCUA requests feedback on all aspects of the proposed rule, including:

Question 149: The OCC did not provide a specific treatment for unconsolidated equity interests in PPSIs. The other banking agencies' capital treatment for non-consolidated equities is generally more conservative than the NCUA's treatment for non-consolidated equities. Banking organizations' unconsolidated investments may be subject to deduction in certain circumstances and are generally subject to higher risk weights than under part 702. The NCUA solicits comment on whether the current treatment under part 702 and NCUA's risk-based capital requirements for unconsolidated CUSO equities is appropriate for unconsolidated PPSI exposures.

Question 150: Are the proposed requirements for capital elements appropriate and sufficiently clear? Should the NCUA consider permitting tier 2 capital in the form of subordinated debt, similar to the permitted capital element under 702, Subpart D? Should the NCUA consider establishing limits on how much capital of each tier should be required or allowed? Alternately, should the NCUA adopt a simpler measure of capital, such as anything that qualifies as equity under GAAP, instead of importing the bank framework for capital

instruments? Should the NCUA use tangible equity (retained earnings, stock, and preferred stock, net of tangible assets) as the measure of capital for a PPSI?

Question 151: Should the NCUA require deductions from regulatory capital for goodwill, certain deferred tax assets, or other illiquid or intangible assets, recognizing that these assets may not provide sufficient loss absorbency during a business disruption, and may experience volatility in value or writedowns that could deplete retained earnings? Please provide any data supporting your views.

Question 152: Are the proposed components and determination of the minimum capital and backstop requirements appropriate for PPSIs? Which alternatives, if any, should the NCUA consider and why? Should the requirements include any adjustments in recognition of newly acquired or divested businesses, or any other adjustments when calculating total expenses for purposes of the proposed backstop? Please provide any data supporting your views.

Question 153: Is the $5 million minimum capital requirement for a de novo PPSI appropriate?

Question 154: The NCUA is considering a variable capital component based on a percentage of Outstanding Issuance Value. This component could address operational risks associated with maintaining the Reserve Assets and issuing Payment Stablecoins to Customers. This component may vary directly with the Outstanding Issuance Value. It could also address price and liquidity risks associated with Payment Stablecoin Reserve Assets when those assets may need to be liquidated at below-market value to meet redemption demands. This component could also address price and credit risk associated with certain Payment Stablecoin Reserve Assets, such as uninsured deposits and/or funds in Share Accounts and certain reverse repurchase agreements. As the size of the Outstanding Issuance Value and corresponding Reserve Assets increase, the operational risk may increase. A larger pool of underlying Reserve Assets may increase the number and severity of hacking attempts, while a larger outstanding issuance may encourage attempts to create fraudulent Payment Stablecoins. Similarly, a larger pool of Reserve

Assets that may need to be liquidated in a short timeframe to satisfy a run on the Payment Stablecoin would increase the risk that Reserve Assets would need to be liquidated at prices below fair value. However, the risk may not grow as quickly as the growth of Reserve Assets. Larger PPSIs may have more resources to spend on cybersecurity and other risk mitigation strategies. One possible calibration for such a requirement could be 1.0 percent for Payment Stablecoin reserves or Outstanding Issuance Value up to $10 billion, 0.40 percent for Payment Stablecoin reserves or Outstanding Issuance Value between $10 billion and $50 billion, and 0.20 percent for Payment Stablecoin reserves or Outstanding Issuance Value greater than $50 billion. However, the NCUA also recognizes that a PPSI could manage these risks through application of Reserve Asset diversification and liquidity measures. These measures could reduce the risk of unanticipated loss and thus the need for a significant amount of capital. Requirements to mitigate those risks are included elsewhere in this proposal. Moreover, including a variable component for operational risk based on Outstanding Issuance Value may disincentivize growth among PPSIs and prevent their Payment Stablecoins from obtaining economies of scale. Should the NCUA impose a minimum capital requirement based on a set percentage of Outstanding Issuance Value? If so, are the minimum capital requirements and thresholds discussed appropriately calibrated? Please provide any data supporting your views.

Question 155: While the capital requirement in the proposed rule text is the NCUA's preferred approach, the NCUA is also considering a variable capital component tied more directly to price and interest rate risk of Payment *S*tablecoin Reserve Assets. Under this approach, a capital charge would apply to Reserve Assets that consist of U.S. Treasuries, repurchase agreements, and tokenized versions of those assets. As a PPSI grows larger, there may be increased risk that a run on the Payment Stablecoin will require liquidation of a significant amount of underlying Reserve Assets over a short time. This may result in the PPSI receiving less than Fair Value for certain Reserve Assets. While the proposed rule's Reserve Asset provisions require consideration of the Fair Value of Reserve Assets, for certain assets

such as U.S. Treasuries, a PPSI may need to sell those assets into the market and accept whatever price the market will offer at that time. A similar risk also arises with reverse repurchase agreements entered into by the PPSI, as the counterparty may decline to roll over the repurchase agreement, thus leaving the PPSI with additional Treasuries. In contrast, cash, deposits and funds in Share Accounts, and money market funds likely could be redeemed at par value with no interest rate risk loss to the PPSI. The NCUA could consider calibrating this variable capital component using the market price volatility haircuts used by banking organizations to calculate exposure amounts for repo-style transactions in 12 CFR 324.37.[237] This approach establishes a haircut of 0.5 percent for Treasuries and Treasury collateral posted or received under repurchase agreements with maturities up to one year, but the NCUA could consider more tailored and granular haircuts, such as 0.05 percent to 0.25 percent, which could vary based on the remaining time to maturity for these reserve assets. However, imposing a capital requirement on only certain Payment Stablecoin Reserve Assets may incentivize PPSIs to focus on other Reserve Assets. This approach may also introduce unnecessary complexity into the rule. The NCUA welcomes comment on the proposed approach in the regulatory text and all alternatives. The NCUA also solicits comments on a variable capital component tied to the credit risk of certain Payment Stablecoin Reserve Assets, specifically uninsured deposits and funds in Share Accounts, reverse repurchase agreements, and money market funds. Proposed § 706.202(c) includes provisions (whether as a requirement or safe harbor) that would encourage a PPSI to spread its deposits and funds in Share Accounts among multiple institutions. Moreover, proposed § 706.202(d) would require certain large PPSIs to hold a minimum amount of insured deposits and/or insured funds in Share Accounts. These provisions would help mitigate the counterparty credit risk that a PPSI would face with respect to uninsured Deposits and uninsured funds in Share Accounts. Thus, it may be unnecessary to impose a variable capital component tied to

[237] Complex FICUs may also use this approach when calculating off-balance sheet assets under 12 CFR 702.104(c)(4)(viii) and (ix).

uninsured Deposits. Currently, the FDIC and NCUA deposit and share insurance limits are $250,000 per depositor per account ownership category at each insured bank or credit union.[238] Even if a PPSI attempted to split its deposits and funds in Share Accounts among multiple insured institutions, the total amount of insured deposits and insured funds in Share Accounts would likely be a small proportion of total Reserve Assets. For example, a Payment Stablecoin with $1 billion of Reserve Assets that kept 10 percent of reserves in bank deposits or FICU Share Accounts would need to spread those funds among 400 accounts to ensure all of those deposits and/or Share Accounts remained fully insured. It is more likely a PPSI would choose a much smaller group of IDIs and deposit a larger amount of reserves at each, resulting in a significant amount of uninsured deposits and/or uninsured funds in Share Accounts. These deposits and funds in Share Accounts would be subject to loss in the event of a failure of an IDI. To address this risk, the NCUA could consider a capital charge of 0.40 percent applied to uninsured deposits and/or uninsured funds in Share Accounts, or some other amount, that could be calibrated based on the number of IDIs or size of the uninsured deposit and/or uninsured funds in Share Accounts amount at each IDI.

Under section 4(a)(1)(A)(v) of the GENIUS Act, a reverse repurchase agreement may be entered into by PPSIs on a cleared basis, tri-party basis, or bilateral basis to satisfy Reserve Asset requirements.[239] For cleared reverse repurchase agreements, the transaction occurs through a central clearinghouse that fully backs the transaction, resulting in negligible counterparty credit risk. Under a tri-party repurchase agreement, the collateral for the transaction is held by a third party, reducing the credit risk to the counterparty. However, in bilateral reverse repurchase agreements, the PPSI would rely solely on the collateral provided by its counterparty. Under section 4(a)(1)(A)(v) of the GENIUS Act, acceptable collateral for reverse repurchase

[238] All shares placed by a member in a particular ownership category—whether in one account or multiple share accounts or at different branches or offices of the same FICU—are aggregated and insured up to the standard maximum share insurance amount for that ownership category. 12 CFR part 745.
[239] 12 U.S.C. 5903(a)(1)(A)(v).

agreements could consist of U.S. Treasury bills, notes, or bonds, with no restrictions on original or remaining maturity. Therefore, in a counterparty default, a PPSI could receive long-dated Treasury securities with an extended time to maturity. Even if the reverse repurchase agreement was significantly overcollateralized, the price volatility of long-dated Treasuries could significantly increase the risk of loss to the PPSI on the default of its counterparty. To address this risk, the NCUA could consider imposing a capital requirement equivalent to the market price volatility haircut applied to collateral for repo-style transactions under the banking agencies capital rules in 12 CFR 324.37. The capital requirement could vary based on the remaining maturity of the collateral and the credit risk of the PPSI's counterparty. With respect to Reserve Assets in the form of money market funds, section 4(a)(1)(A)(vi) of the GENIUS Act requires that a PPSI only hold money market funds that invest in certain other eligible reserve assets; however, these include deposits, funds in Share Accounts, and reverse repurchase agreements that give rise to the same risks as if held directly by the PPSI.[240] Therefore, the NCUA could consider a capital charge that would require the PPSI to look through to the underlying assets of the money market fund, similar to the capital requirement for an equity exposure to an investment fund in Appendix A to Part 702—Gross-Up Approach, and Look-Through Approaches.

However, the NCUA considered that imposing a capital charge on these types of Reserve Assets could incentivize PPSIs to hold reserves in other types of assets that could be subject to lower or no specific capital charge. The NCUA does not want to discourage PPSIs from investing Reserve Assets in certain permissible categories, particularly in Share Accounts at FICUs. In addition, the proposed asset diversification and liquidity requirements would help mitigate the risk of loss on Reserve Assets without imposing a financial capital requirement. Should the NCUA adopt a capital requirement based on price risk, credit risk, operational risk, or interest rate risk, including variations on any of the proposals discussed above? Please provide

[240] 12 U.S.C. 5903(a)(1)(A)(vi).

any data supporting your views. For example, should the NCUA impose a charge for credit risk, such as a 2 percent capital charge for uninsured deposits and uninsured funds in Share Accounts? Should the NCUA impose a capital charge to reflect the interest rate risk of certain Reserve Assets, such as Treasury securities? Should the NCUA impose a minimum operational risk capital charge that scales with the size of the issuer, as discussed above (i.e., with a charge of 1 percent for small issuers with a smaller additional marginal charge applying at certain thresholds)? Should any such operational charge be based, in part, on the PPSI's recent losses?

Question 156: While the capital requirement in the proposed rule is the NCUA's preferred approach, for PPSIs that also provide custody services to Customers, the NCUA is also soliciting comment about the potential for a variable capital component based on the Fair Value of assets held in custody. Operating a custody business generates a separate set of risks from operating a Payment Stablecoin business, and the risk is potentially increased compared with a standalone custody business, as any loss of the assets in custody could also impact operations of the custody business. This capital component could reflect costs associated with providing for ongoing operation of a PPSI's custody business, irrespective of the success or failure of the associated Payment Stablecoin issuance. This approach of assessing a capital charge based on the size and scope of a custodian's business is consistent with the GENIUS Act requirement that a PPSI's capital requirements be tailored based on the risk profile of the issuer.[241] The NCUA believes that the risks, in particular the operational risks, associated with providing custody services can be adequately addressed through the de novo and ongoing capital requirements in proposed § 706.401(a)(1) and (2). Proposed § 706.401(a)(2)(i) expressly states that the capital maintained by the PPSI must be commensurate with the level and nature of all risks to which the PPSI is exposed, including risks for off-balance sheet activities. Because the risks associated with operating a custody business would be addressed through a holistic assessment of the PPSI's risks in the proposal, the NCUA does not propose to include a variable capital component

[241] See 12 U.S.C. 5903(a)(4)(A)(i).

relating to assets under custody. The NCUA generally expects that entities engaged in custody businesses will require additional capital to address the operational risk associated with this activity. However, the NCUA solicit comments on whether it should adopt a capital requirement based on assets held in custody by the PPSI? If so, how should that requirement be calibrated? Please provide any data supporting your views.

Question 157: Should the NCUA adopt a capital requirement expressly designed to address costs of litigation, legal risk, or legal costs during insolvency that a PPSI may face? If so, how should such a requirement be calibrated?

Question 158: Should the capital and backstop requirements be calculated based as of the last day of a given quarter, as proposed? Should the amount instead be calculated across some other period of time, such as an average on a monthly, bi-monthly, biannually, or yearly basis?

Question 159: Is the timing for the PPSI to meet capital and backstop requirements appropriate? Are the resulting activity limitations for failing to meet those requirements appropriate? Should any activity limitations be imposed by NCUA on a discretionary basis? For example, should the PPSI be required to notify the NCUA in writing if it fails to meet its capital or operational backstop requirements and include a written contingency plan with measures to be taken by it to restore compliance? The rule could also provide that the NCUA may take certain discretionary actions if necessary, including directing the PPSI to issue capital instruments or acquire additional operational backstop assets; directing the PPSI to suspend or reduce issuance of Payment Stablecoins; or executing an orderly redemption of all outstanding Payment Stablecoins.

Question 160: Are there any advantages or disadvantages to setting capital requirements for PPSIs consistent with or different from those set by non-United States regulators? The proposed approach to determining capital requirements is less prescriptive than approaches adopted or proposed in certain foreign jurisdictions. Are there any advantages or disadvantages

to setting capital requirements for PPSIs consistent with the approaches adopted by those jurisdictions?

Question 161: Are the proposed criteria for imposing an individual additional capital or backstop requirements appropriate and sufficiently clear? For example, should the NCUA define what constitutes "excessive volatility?"

G. Subpart E—Supervision and Enforcement Policy for Anti-Money Laundering/Countering the Financing of Terrorism Program Requirements for NCUA-Licensed PPSIs

Proposed subpart E of part 706 would articulate the supervision and enforcement frameworks for NCUA-Licensed PPSI's anti-money laundering/countering the financing of terrorism (AML/CFT) programs, which PPSIs are required to maintain under the GENIUS Act[242] and proposed §706.204(c). The proposed rule defines key terms, describes the NCUA's enforcement and supervision policy with respect to AML/CFT program implementation failures, and establishes a consultation process between FinCEN and the NCUA relating to AML/CFT enforcement actions or significant AML/CFT supervisory actions.

1. § 706.501. Definitions

Proposed § 706.501 would define several terms used throughout the subpart.

The term "AML/CFT enforcement action" would mean any formal or informal action taken by the NCUA under authority of 12 U.S.C. 5905 or other applicable law that seeks to penalize, remedy, prevent, or respond to noncompliance with past or ongoing violations of, or past or ongoing deficiencies relating to, an AML/CFT requirement. The term includes a cease-and-desist order, written agreement, consent order, or memorandum of understanding, or the assessment of a civil money penalty. It does not include criminal enforcement.

The term "AML/CFT requirement" would mean: (1) a requirement of the Bank Secrecy Act (as that term is defined in proposed part 706)) or of the regulations in title 31, chapter X

[242] 12 U.S.C. 5903(a)(5) and (6).

applicable to PPSIs; (2) a requirement of 12 U.S.C. 5903(a)(5)(A)(i)-(v), 12 U.S.C. 5903(a)(6)(B), or 12 U.S.C. 5903(f)(1)(A); or (3) a requirement prescribed under 12 U.S.C. 1786(q) or this section.

The term "significant AML/CFT supervisory action" would mean any written communication or other formal supervisory determination issued by the NCUA that identifies one or more alleged deficiencies, weaknesses, violations of law, or unsafe or unsound practices or conditions relating to an AML/CFT requirement; communicates supervisory expectations to a PPSI regarding actions or remedial measures required to correct the deficiency, weakness, violation, or practice or condition; and contemplates significant or programmatic actions or remedial measures to be taken by the PPSI. The term does not include examiner observations, suggestions, or other informal comments.

2. § 706.502. Supervision and Enforcement Policy

Proposed § 706.502 would articulate the NCUA's enforcement and supervision policy as it relates to AML/CFT requirements. Except with respect to a significant or systemic failure to implement an effective AML/CFT program in accordance with applicable regulations at 31 CFR Chapter X issued by FinCEN, a PPSI that has properly established an AML/CFT program would not be subject to an AML/CFT enforcement action or to a significant AML/CFT supervisory action based on the program requirements issued by FinCEN or proposed §706.204(c). At the same time, the proposed rule would clarify that nothing in this policy would restrict an AML/CFT enforcement action or a significant AML/CFT supervisory action with respect to a failure to properly establish an AML/CFT program. The NCUA's proposed enforcement and supervisory approach is not intended to affect criminal enforcement liability under the BSA.

3. § 706.503. Consultation

The proposed rule would establish a notice and consultation framework applicable when the NCUA intends to initiate an AML/CFT enforcement action or a significant AML/CFT supervisory action, as those terms are defined in the proposed regulation. Under such a

consultation framework, before initiating such an action, the NCUA would provide the Director of FinCEN with an opportunity to review the action and would consider any input offered by the Director of FinCEN, which may include any view as to the effectiveness of the PPSI's AML/CFT program. To facilitate that review, the NCUA would be required to provide written notice to the Director of FinCEN of the NCUA's intent to take the action at least 30 days in advance of the proposed action, unless a shorter period is necessary, at the sole discretion of the NCUA, to remedy, prevent, or respond to an unsafe or unsound practice or condition.

Such a notice would be accompanied by the relevant AML/CFT information underlying the proposed action. Relevant AML/CFT information may include, but is not limited to, relevant portions of draft report of examination; relevant portions of a draft enforcement action; examination workpapers supporting the proposed action; and the relevant AML/CFT information submitted by the PPSI to the NCUA. The NCUA would not be obligated to provide information over which the PPSI may claim privilege under Federal or State law. The NCUA would also respond, to the extent reasonably practicable, to requests for additional AML/CFT information from the Director of FinCEN regarding the proposed action. The NCUA seeks comments on such a consultation framework.

4. § 706.504. Disclosure of Supervisory Information

The NCUA has issued regulations that generally prohibit the disclosure of the NCUA's non-public information, except as provided under such regulations.[243] This prohibition generally applies to disclosure of any portion of a report of examination, supervisory correspondence, and any representations concerning such reports or supervisory correspondence, or their findings, including conclusions regarding compliance with AML/CFT compliance program requirements. The proposed rule would clarify that PPSIs may share any information with the FinCEN Director that relates to an existing or potential AML/CFT enforcement action or significant AML/CFT supervisory action.

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[243] *See* 12 CFR Part 792.

This proposed rule specifically provides that this authorization to share information includes information that would ordinarily be considered non-public information under the NCUA's rules. To qualify for this information sharing, the information at issue must have an appropriate nexus to an existing or potential AML/CFT enforcement action or significant AML/CFT supervisory action. The NCUA proposes this clarification to ensure that PPSIs can share appropriate information with the FinCEN Director, including in the context of actions subject to the newly established consultation requirement. Otherwise, PPSIs may be unable to provide thorough information to the FinCEN Director, whether proactively or in response to the Director's requests.

While the proposed rule intends to permit such sharing, the NCUA is proposing two alternative methods for permitting such information sharing with the FinCEN Director. Under the first approach, referred to as Option A in the amendatory text below, the NCUA would authorize the disclosure of covered information on the NCUA's behalf to the FinCEN Director and separately permit the FinCEN Director to use such information. This phrasing is intended to mirror the permissible scope of information sharing by the NCUA under 12 U.S.C. 1821(t), which provides that a "covered agency, in any capacity, shall not be deemed to have waived any privilege applicable to any information by transferring that information to or permitting that information to be used by" another Federal agency.

Under the alternative approach, referred to as Option B in the amendatory text below, the NCUA would similarly authorize the disclosure of covered information on the NCUA's behalf, as well as similarly authorize the use of such information by the FinCEN Director. The NCUA, however, would expressly require that any such information shared on the NCUA's behalf be contemporaneously disclosed by the PPSI to the NCUA. While the NCUA will necessarily already have access to its own non-public information, this additional requirement is potentially more consistent with the retention of privilege contemplated under 12 U.S.C. 1821(t) and, therefore, potentially provides a greater safeguard against the unintended destruction of

privilege. The NCUA also recognizes that PPSIs' willingness to share timely, fulsome information with the FinCEN Director is essential to the success of the consultation framework. Requiring PPSIs to contemporaneously disclose to the NCUA the same non-public information they provide to FinCEN is likely to discourage proactive reporting—particularly where a PPSI perceives the NCUA's proposed action as inconsistent with the AML/CFT priorities or FinCEN policy—and thereby undermine the rule's objective of enhancing FinCEN's role.

Regardless, the proposed rule would include additional clarifying text intended to preserve all applicable privileges. The destruction of privilege over non-public supervisory information could prove harmful both to the NCUA and a PPSI, so the additional language is intended to prevent such consequences.

The NCUA invites comment on these options for permitting greater information sharing with the FinCEN Director regarding existing or potential AML/CFT enforcement actions or significant AML/CFT supervisory actions, including possible alternative methods of accomplishing the rule's objectives without unintentionally impeding applicable privileges.

5. Request for Comment

The NCUA requests feedback on all aspects of the proposed rule, including:

Question 162: Should the NCUA further refine or clarify any of the concepts or definitions outlined in this proposed supervision and enforcement framework?

Question 163: Do any aspects of the GENIUS Act framework with regards to supervision, examination, and enforcement need to be better accounted for if the supervision and enforcement framework were extended to PPSIs, including a consultation framework when the NCUA intends to take an AML/CFT enforcement action or significant AML/CFT supervisory action? For example, should revocation of approval to issue a Payment Stablecoin, if based in whole or in part on AML/CFT deficiencies, be accounted for in, including in the definition of AML/CFT enforcement action?

Question 164: Should the proposed consultation process include an asset threshold—e.g., consultation is required for any significant AML/CFT supervisory actions involving PPSIs with $10 billion or more in assets? In addition, or as an alternative, should the proposed rule not require but instead provide the option for PPSIs to request that the NCUA consult with FinCEN prior to initiating a significant AML/CFT supervisory action?

Question 165: Notwithstanding the benefits of the proposed consultation described above, the proposal may result in additional review during an examination. How can the consultation process be streamlined and prevent logistical burdens for financial institutions or delays in exam report issuance?

Disclosure of Supervisory Information

Question 166: The NCUA invites comment on the two options for permitting greater information sharing with the FinCEN Director regarding AML/CFT enforcement actions or significant AML/CFT supervisory actions. In particular, would the disclosure of confidential supervisory information to FinCEN compromise attorney-client privilege, other applicable privileges, or otherwise undermine the preservation of privilege in 12 U.S.C. 1821(t)?

H. Assessments

In the OCC Proposal, the OCC determined that collecting assessments in connection with the GENIUS Act activities of OCC-supervised institutions is necessary and appropriate to facilitate the OCC's functions under the GENIUS Act and conforms with its assessment authorities. The OCC found that its expanded supervisory responsibilities under the GENIUS Act include licensing and registration decisions for certain PPSIs, and monitoring compliance with reserve requirements and other applicable laws and regulations relating to Payment Stablecoin activities warranted the assessments.

Similar to the OCC, the NCUA would also be responsible for expanded oversight functions related to FICU Payment Stablecoin activities and activities of NCUA-Licensed PPSIs. As discussed in the NCUA Standards Proposal, proposed § 706.103 would state that the NCUA

may require filing fees to accompany certain filings made under Subpart A. The NCUA also sought comment regarding the pros and cons of recovering the costs of administering the Payment Stablecoin program by imposing charges on individual FICUs or NCUA-Licensed PPSIs, including through an examination fee. The NCUA continues to consider the potential for imposing a licensing fee or examination fee to offset the NCUA's additional costs and seeks comments on how the NCUA should account for the additional expense. The NCUA believes that because Payment Stablecoin activities and investments are optional and based on each FICU's business judgment; and that because it is likely that, at least initially, only a minority of FICUs participate in Payment Stablecoin activities and investments, commenters may consider it more equitable to not pay these costs out of the general FCU operating fee and National Credit Union Share Insurance Fund (NCUSIF) overhead transfer.

The NCUA notes that the intent for any charges would not be to act as a deterrent, but rather as an equitable way of assessing the cost of Payment Stablecoin activities and the NCUA's expanded supervision requirements.

I. Proposed Amendments to Part 747

The NCUA is proposing several revisions to the rules of practice and procedure for adjudicatory proceedings part 747 of the NCUA's regulations to incorporate the GENIUS Act's procedural requirements with respect to PPSIs.[244]

Section 6(b) of the GENIUS Act[245] requires the NCUA to follow certain procedures when bringing an enforcement action or imposing civil money penalties against a PPSI for violations of the GENIUS Act, any regulation or order issued under the Act, or any condition imposed in writing between the NCUA and PPSI.

[244] 12 CFR Part 747.
[245] 12 U.S.C. 5905(b).

Specifically, section 6(b)(4)(A) of the GENIUS Act[246] requires the NCUA to comply with the procedures set forth in paragraphs (e) and (g) of section 206 of the FCU Act[247] if the NCUA identifies a violation or attempted violation of the GENIUS Act or makes a determination with respect to the enforcement authorities enumerated at sections 6(b)(1) through (3) of the Act.[248] Similarly, section 6(b)(4)(D) of the GENIUS Act[249] permits the NCUA to follow the procedures in section 206(f) of the FCU Act when the NCUA issues a temporary cease-and-desist order.

Section 6(b)(5)(D) of the GENIUS Act clarifies that any civil money penalty imposed under the GENIUS Act may be assessed and collected by the NCUA pursuant to the procedures set forth in section 206(k)(2) of the FCU Act.[250]

Consistent with the GENIUS Act, the NCUA proposes to revise § 747.1 to clarify that the rules of practice and procedure in part 747 apply to the following proceedings: suspension or revocation of registration, cease-and-desist, temporary cease-and-desist, removal and prohibition, or civil money penalties under section 6 of the GENIUS Act.[251] Additionally, the NCUA proposes to revise § 747.703(a) to clarify that the part 747 procedures for formal investigations apply to formal investigations initiated by the NCUA pursuant to section 6 of the GENIUS Act.[252]

The NCUA also proposes several technical revisions. Specifically, the NCUA proposes to revise the definitions of "institution" and "institution-affiliated party" in § 747.3 to incorporate PPSIs and actions brought pursuant to the Act.

J. Proposed Amendments to Part 745

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[246] 12 U.S.C. 5905(b)(4)(A).
[247] 12 U.S.C. 1786.
[248] Section 6(b)(1) through (3) of the GENIUS Act give the NCUA authority to suspend or revoke the registration of a PPSI, initiate cease-and-desist proceedings, and remove and prohibit institution-affiliated parties.
[249] 12 U.S.C. 5905(b)(4)(D).
[250] 12 U.S.C. 5905(b)(5)(D).
[251] 12 U.S.C. 5905.
[252] *Id.*

Reserve assets backing Payment Stablecoins are an important component of the statutory framework established by the GENIUS Act. Through this proposal, the NCUA is seeking to clarify the treatment for such reserves for share insurance purposes. In particular, the NCUA is proposing to amend its share insurance rules, found in part 745 of the NCUA's regulations, to provide that funds held in Share Accounts at FICUs as reserves for a Payment Stablecoin would be insured to the PPSI under the NCUA's coverage rules for corporate accounts, but would not be insured to Payment Stablecoin holders on a pass-through basis. As corporate accounts of the PPSI, such accounts would be aggregated with other corporate accounts maintained by the PPSI at the same FICU and insured for up to the Standard Maximum Share Insurance Amount (SMSIA), currently $250,000. The NCUA is seeking comment on whether this is the appropriate approach and reflects the appropriate interpretation of the GENIUS Act and FCU Act.

1. General Principles of Share Insurance Coverage

The NCUA only insures "accounts," as that term is defined in section 101(5) of the FCU Act (12 U.S.C. 1752(5)). "Share Accounts," as defined in Part 706, funds in "accounts" (as defined by the FCU Act) at FICUs, which the GENIUS Act provides may comprise a portion of a PPSI's reserves backing its Payment Stablecoins.[253]

The FCU Act establishes the key parameters of share insurance coverage, including the SMSIA, and provides share insurance coverage up to the SMSIA at each separately chartered FICU where accounts are maintained.[254] The FCU Act also provides separate insurance coverage for accounts maintained in different classifications (also known as ownership categories) at the same FICU.[255] In other words, the SMSIA is $250,000 per accountholder, per FICU, for accounts held in each ownership category.

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[253] The NCUA's share insurance coverage does not apply to other types of Reserve Assets that a PPSI may maintain at a FICU pursuant to the GENIUS Act.
[254] *See* 12 U.S.C. 1787(k).
[255] *See* 12 U.S.C. 1787(k)(1)(C).

Today, some Share Accounts are eligible for pass-through share insurance. Pass-through share insurance coverage is a mechanism that allows account funds placed at a FICU by a third party on behalf of one or more owners to be insured as if deposited directly at the FICU by the owner(s). Certain regulatory requirements must be satisfied for pass-through share insurance to apply: (1) the account records of the FICU must expressly disclose a basis for pass-through coverage, such as a custodial or agency relationship; (2) the identities and interests of the owners must be ascertainable either from the records of the FICU or records maintained in good faith and in the regular course of business by the account owner or another party that maintains such records for the account owner; and (3) the relationship that provides the basis for pass-through share insurance coverage must be genuine, with the deposited funds actually owned by the named owners.[256]

The NCUA insures "member accounts"/"accounts" as defined by section 101(5) of the FCU Act, at all FICUs.[257] Importantly, these terms are not limited to those persons enumerated in the credit union's field of membership who have become members. They also includes certain nonmembers, such as other nonmember credit unions; nonmember public units and political subdivisions; and, in the case of credit unions serving predominantly low-income members, deposits of nonmembers generally. In other words, the NCUA provides share insurance coverage to members and those otherwise eligible to maintain insured accounts at FICU. In general, the NCUA looks to the actual owner of the funds in the "account" to satisfy the membership or otherwise be eligible to maintain an insured account requirement.

2. GENIUS Act Provisions Concerning Share Insurance

The GENIUS Act expressly provides that 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

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[256] 12 CFR 745.2(c)(1)-(2).
[257] *See* 12 U.S.C. 1752(5). Proposed part 706 would cross reference this definition when defining "Share Account."

insurance by the National Credit Union Administration," and it is unlawful to make contrary representations.[258]

These provisions appear to be inconsistent with providing share insurance to Payment Stablecoin holders on a pass-through basis. When the NCUA insures accounts on a pass-through basis, it treats end Customers as accountholders. Treating Payment Stablecoin holders as the insured accountholders on a pass-through basis seems inconsistent with the GENIUS Act's prohibition on Payment Stablecoins being "subject to share insurance." Additionally, third parties that establish pass-through insurance arrangements often market the availability of NCUA share insurance to their customers, which is consistent with the principle that a third party offering pass-through insurance is effectively offering an access mechanism to an NCUA-insured Share Account. The GENIUS Act's firm prohibition on marketing Payment Stablecoins as subject to share insurance seems inconsistent with the concept of Payment Stablecoins serving as an access mechanism for NCUA-insured Share Accounts. Moreover, the fact that a Payment Stablecoin holder would generally engage in transactions by transferring Payment Stablecoins, without funds ever leaving the NCUA-insured Share Account, further differentiates Payment Stablecoin arrangements from existing pass-through arrangements, in which funds generally are withdrawn from the Share Account when transactions are made.

3. Proposed Amendments to § 745.6(b)

For reasons just discussed, the NCUA proposes to amend its share insurance rules, found in part 745 of the NCUA's regulations, to clarify that Share Accounts held as reserves for a Payment Stablecoin are not insured to Payment Stablecoin holders on a pass-through basis. Under the proposed rule, such accounts would be insured as corporate accounts of their owner, the PPSI. The NCUA proposes to amend its share insurance rules for corporate accounts, found at 12 CFR 745.6, to expressly include within their scope funds in Share Accounts held as reserves backing Payment Stablecoins.

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[258] 12 U.S.C. 5903(e)(1), (2).

The proposed rule would split current 745.6 into two subparagraphs. Paragraph (a) would contain existing 745.6 with no changes. Current 745.6 (and proposed paragraph (a)) provides that Share Accounts of a corporation engaged in any independent activity are added together and insured up to the SMSIA, currently $250,000, in the aggregate.[259] Proposed paragraph (b) would provide that notwithstanding any other provision of part 745, accounts at a FICU held as reserves for a Payment Stablecoin, as defined in the GENIUS Act, are accounts of the PPSI's and insured as corporate accounts. Under the proposed rule, all Share Accounts maintained by a PPSI at a FICU would be added together for purposes of the share insurance limit, regardless of whether those Share Accounts consist of reserves backing Payment Stablecoins or serve some other purpose (such as paying the PPSI's operating expenses). The PPSI's Share Accounts would not be insured to Payment Stablecoin holders on a pass-through basis.

4. Request for Comment on Share Insurance Coverage Proposal

The NCUA requests feedback on all aspects of the proposed rule, including:

Question 167: Is the NCUA's proposed treatment of Share Accounts that compose reserves for a Payment Stablecoin under section 4 of the GENIUS Act appropriate?[260] Is this the best reading of the GENIUS Act and FCU Act?

Question 168: If Payment Stablecoin reserves were eligible for pass-through share 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?

Question 169: If Payment Stablecoin reserves are or are not eligible for pass-through share insurance, what impact would this have on the market demand for Payment Stablecoins? What impact would it have on the composition of Reserve Assets of PPSIs?

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[259] The share insurance regulations define being engaged in an "independent activity" to mean an activity other than one directed solely at increasing insurance coverage. 12 CFR. 745.6. The NCUA has historically interpreted "corporation" broadly for purposes of section 745.6 to include similar forms of organizations established under State law, such as limited liability companies.

[260] 12 U.S.C. 5903(a)(1)(A)(ii).

Question 170: If Payment Stablecoin reserves are eligible for pass-through share insurance, what impact would that have on the NCUSIF?

Question 171: If Payment Stablecoin reserves are eligible for pass-through share insurance, how would that impact the risk of a PPSI's risk of failure?

Question 172: Should the availability of pass-through insurance or lack thereof have an impact on any of the other requirements in the proposed rule?

5. Treatment of Shares in Tokenized Form

The GENIUS Act establishes a Federal regulatory framework for the issuance of Payment Stablecoins and related Payment Stablecoins activities; the GENIUS Act does not specifically address tokenized deposits or tokenized shares in Share Accounts), other than to provide that the definition of "payment stablecoin" does not include, among other things, a deposit, including a deposit recorded using Distributed Ledger technology,[261] and to provide that nothing in the GENIUS Act may be construed to limit the authority of an IDI (including a FICU) to engage in activities permissible pursuant to applicable State and Federal law, including accepting or receiving deposits or shares (in the case of a credit union), and issuing digital assets that represent those deposits or shares.[262] Although Payment Stablecoins and tokenized shares[263] can both be used as a means of payment and can use the same underlying technological components and characteristics, Payment Stablecoins and tokenized shares are economically and legally distinct. Payment Stablecoins generally represent a PPSI's liability where the promise to redeem and to maintain a stable value is backed by highly liquid, short-term, and safe assets (including deposits and funds in Share Accounts at IDIs) held in reserve to mitigate concerns of counterparty risk.

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[261] *See* 12 U.S.C. 5901(22).
[262] *See* 12 U.S.C. 5915(a)(1).
[263] For purposes of this discussion, the NCUA is using the term "tokenized shares" to refer to tokenized forms of funds deposited in in Share Accounts, as defined by proposed Part 706, and "accounts," or "member accounts" as defined by section 101(5) of the FCU Act. 12 U.S.C. 1752(5).

A tokenized share, on the other hand, is a FICU's share liability represented in a particular way: in tokenized form and recorded on a Distributed Ledger technology. Like other shares, tokenized shares fund a FICU's extensions of credit and represent an integral part of the maturity and liquidity transformation services provided by credit unions. FICUs are subject to extensive regulatory and supervisory requirements, and maintain Federal share insurance.

The NCUA is using this proposed rule as a vehicle to clarify the treatment of tokenized shares under the FCU Act. Whether or not a particular tokenized financial product is considered a tokenized share for purposes of the FCU Act is relevant, among other things, to: (1) the applicability of share insurance,[264] (2) distribution of assets in the event of an institution's failure and liquidation,[265] (3) regulatory reporting purposes,[266] and (4) whether it would not be subject to the GENIUS Act.[267] Accordingly, the NCUA is proposing to amend its share insurance rules under part 745 to clarify that the application of share insurance to share accounts does not depend upon the technology or recordkeeping used to record a FICU's share liabilities.

The FCU Act's definition of an "account"/"member account" is technology neutral, and therefore, tokenized forms of shares in Share Accounts are not a separate category of accounts under the statute. For a FICU's tokenized financial product to be considered an account, it must meet the statutory definition of "account"/"member account" under section 101(5) of the FCU Act (12 U.S.C. § 1752(5)). The technology used in crediting an account, evidencing a share liability, or recording or transferring a share, is not a factor in applying the statutory definition. A tokenized product that meets the statutory definition of "account"/"member account" is a share

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[264] *See* 12 U.S.C. 1781(a).
[265] See 12 U.S.C. 1787(b)(11).
[266] *See* 12 U.S.C. 12 U.S.C. 1756, 1766, 1781, and 1782; 12 CFR part 741.
[267] *See* 12 U.S.C. 5901(22)(B)(ii) (stating the GENIUS Act's definition of "payment stablecoin" expressly does not include a digital asset that "is a deposit (as defined in section 3 of the Federal Deposit Insurance Act (12 U.S.C. 1813)), including a deposit recorded using distributed ledger technology."). Consistent with the GENIUS Act's rules of construction, which provide that "[n]othing in this chapter may be construed to limit the authority of a … Federal credit union [or] State credit union … to engage in activities permissible pursuant to applicable State and Federal law, including— (1) accepting or receiving deposits or shares (in the case of a credit union), and issuing digital assets that represent those deposits or shares," the NCUA believes that tokenized shares are not covered by the GENIUS Act's definition of "payment stablecoin."

account, and as such, is treated no differently under the FCU Act than other forms of share accounts. Accordingly, a FICU member or accountholder using tokenized shares is afforded the same Federal share insurance coverage under the FCU Act as a FICU member or accountholder using non-tokenized shares.

The proposed rule would amend the NCUA's share insurance regulations to expressly include the general principle that the technology or recordkeeping utilized by a FICU to record its account liabilities does not affect whether those liabilities constitute insurable "accounts." The proposed amendment is intended to codify this principle. Thus, a FICU's tokenization of its share "account" liabilities would not alter the legal status of those liabilities as insurable share "accounts." Under the proposed rule, members and accountholders with tokenized shares in accounts would be entitled to the same benefits as members and accountholders with more traditional forms of accounts, including the NCUA's share insurance coverage.

Although a tokenized share is an insurable share "account," there may be tokenized FICU liabilities that are not insurable share accounts, irrespective of an intention or representation that such constitute an insurable share account. If a product does not meet the statutory definition of an "account," will not be an insurable share account. FICUs should also be mindful of the evolving characteristics and capabilities of tokenized shares that may lead to any material changes to the underlying nature throughout a product or transaction lifecycle to ensure ongoing alignment of the underlying tokenized share with the FCU Act's statutory definition of account.

As noted above, under the NCUA's regulations, for pass-through share insurance to apply, certain recordkeeping and ownership requirements must be met.[268] The NCUA seeks comment on whether any amendments to the share insurance rules, including the rules related to pass-through coverage, are needed to address tokenized shares.[269] For example, the pass-through

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[268] *See* 12 CFR 745.2(c).

[269] The NCUA's pass-through insurance rules support the agency's ability to carry out its statutory obligation to aggregate and insure accounts of each eligible accountholder up to the insurance limit, regardless of whether funds are held in the name of the accountholder or another party. *See* 12 U.S.C. 1787(k)(1)(A)-(B); *see* also 12 U.S.C. 1787(d)(1) (requiring the NCUA to pay share insurance as soon as possible following a FICU's failure).

insurance rules require that a FICU's account records expressly indicate a relationship, such as a fiduciary or agent relationship, that provides a basis for pass-through coverage.[270] Parties often satisfy this requirement today through account titling. To the extent tokenized Share Account arrangements may involve different approaches to account titling or recordkeeping, the NCUA seeks comment on what clarifications to the NCUA's pass-through rules would be appropriate.

6. Request for Comment on Treatment of Share Accounts in Tokenized Form

The NCUA requests feedback on all aspects of the proposed rule, including:

Question 173: Is the NCUA's proposed amendment to part 745 clarifying that the application of share insurance to share "accounts" does not depend upon the technology or recordkeeping used to record a FICU's share liabilities appropriate? Should the NCUA consider a more narrow amendment specifically focused on tokenized shares?

Question 174: Should the NCUA provide additional clarity regarding the treatment of tokenized shares outside of the share insurance context?

Question 175: Would it be helpful for the NCUA to consider defining relevant terms related to tokenized shares for purposes of the FCU Act, and, if so, what defined terms should be considered?

Question 176: What key characteristics of tokenized shares might be considered in the context of whether a particular product would be considered an "account" under the FCU Act? Do such products, including those that represent tokenized shares in accounts, function similarly or dissimilarly to the types of instruments considered an account for purposes of the FCU Act (e.g., share certificates and other similar official instruments)?

Question 177: Although the statutory definition of "account" is technology neutral, how might technology and the evolving capabilities of tokenized share account products, including through application of smart contracts, alter the underlying nature of a FICU's liability?

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[270] 12 CFR 745.2(c)(1).

Question 178: Should NCUA's rules and regulations be further updated to reflect reporting and recordkeeping considerations that are unique to blockchain and Distributed Ledger-based systems, and if so, how?

Question 179: The NCUA determines share insurance coverage at the time of the failure of a FICU, based on the FICU's account records and in accordance with share insurance coverage rules. A FICU's account records are evidence of its share account obligations. What challenges, if any, do tokenized shares in accounts present as to blockchain and Distributed Ledger recordkeeping, particularly as it relates to identifying owners of the accounts and aggregating tokenized shares in accounts with other traditional share accounts?

Question 180: How should the NCUA view a Digital Asset that only represents an interest in or claim on a Share Account at a FICU rather than being the tokenized share in an account itself? Under what circumstances could such a product be viewed as a tokenized share in an account of a FICU, and under what circumstances could such a product be viewed as a Payment Stablecoin backed by tokenized shares in Share Accounts? In what other manner could such a product be characterized for purposes of the GENIUS Act and other applicable law (e.g., banking, credit union, and securities laws)? How would Digital Assets that represent tokenized shares in accounts but are not themselves share accounts be treated for accounting purposes; for example as an intangible asset or as cash and cash equivalents?

Question 181: What additional clarifications of existing pass-through rules are needed, if any, to address tokenized share arrangements? Should the NCUA's approach to tokenized shares differ in any respect from the approach to other share accounts? To what extent should the NCUA consider modifications with respect to expectations around account titling and recordkeeping? Are there particular considerations for any specific type of third-party arrangement?

V. General Request for Comment

The NCUA requests feedback on all aspects of the proposed rule, including:

Question 182: A PPSI must be obligated to convert, redeem, or repurchase its issued Payment Stablecoins for a fixed amount of Monetary Value, not including a Digital Asset denominated in a fixed amount of Monetary Value. Is additional guidance needed on the accounting treatment for issued Payment Stablecoins and the associated Reserve Assets? If so, what considerations should factor into any such guidance (*e.g.,* what legal structures would be relevant to the accounting treatment)?

Question 183: What impact would the proposed rule have on credit creation? How can the NCUA minimize any negative impact to credit creation?

Question 184: Should any additional aspects of the proposed rule be adjusted based on the size of the PPSI? For example, are there additional aspects of the proposed rule that should be applied exclusively to issuers with outstanding issuance above a certain amount? Should the NCUA measure the "size" of a PPSI by its outstanding Payment Stablecoin issuance or is there a better measurement?

Question 185: Are there any aspects of the proposed rule that the NCUA should adjust to promote fair competition between FICUs and non-FICUs?

Question 186: Are there any other technical developments in Distributed Ledger Protocols, Digital Assets, or related technologies that the proposed rule should address to ensure the purposes of the GENIUS Act are being met? For example, should the NCUA consider automating aspects of reporting or oversight? Should the NCUA incorporate additional provisions concerning the use of smart contracts when considering compliance with aspects of the proposed rule, such as risk management? Are there dynamics relevant to particular blockchains that could affect liquidity, redemption, operating risk, or run risk that the NCUA should consider and incorporate into any final rule?

Question 187: Are there any particular considerations that the NCUA should bear in mind or changes that the NCUA should make with respect to PPSIs that are owned or operated

by a consortium of other entities subject to the jurisdiction of various primary Federal payment stablecoin regulators and/or State payment stablecoin regulators?

Question 188: Should the NCUA adopt any new rules or change any existing rules to implement the insolvency provisions of the GENIUS Act? Should the NCUA require PPSIs to establish resolution plans?

Question 189: Section 12 of the GENIUS Act provides that the primary Federal payment stablecoin regulators, in consultation with the National Institute of Standards and Technology, and other relevant standard-setting organizations, and State bank and credit union regulators, shall assess and, if necessary, prescribe standards for PPSIs to promote compatibility and interoperability with other PPSIs and the broader digital finance ecosystem. What efforts are issuers currently taking to address challenges posed by interoperability? What considerations should the regulators take into account in determining whether standards are necessary? Would the promulgation of standards help to broaden adoption of Payment Stablecoins?

Question 190: What are risks posed by different types of interoperability solutions and how might issuers and regulators manage those risks? How can interoperability solutions aid in addressing risks facing issuers? What risks are introduced by cross-chain bridges and other interoperability solutions and how do these risks interact with BSA/AML and sanctions requirements? What steps can be taken to address such BSA/AML and sanctions concerns?

Question 191: Is there anything else the NCUA should do to address potential fraud concerns in the context of a final rule? For example, a bad actor may create fraudulent tokens intended to mimic a Payment Stablecoin. Are there technical or other requirements the NCUA should impose to mitigate the potential for such fraudulent tokens to harm consumers? For example, should authentic Payment Stablecoins be required to have an electronic signature that can be verified by a recipient? Are there other areas of potential fraud that the NCUA should be aware of and should attempt to mitigate in the final rule?

Question 192: What changes to existing rules should be made in recognition of the GENIUS Act?

Question 193: Should the NCUA establish minimum standards for customer service and dispute resolution for retail holders of Payment Stablecoins, including requirements for response timelines and escalation procedures?

Question 194: Should the NCUA require NCUA-Licensed PPSIs above a certain size to conduct periodic "stress tests" or run simulations modeled on historical stablecoin de-pegging events? If so, how should stress scenarios be designed and should results be made public?

Question 195: Should the NCUA standardize the disclosures that NCUA-Licensed PPSIs are required to provide to Customers similar to how the Truth in Savings Act standardizes disclosures for share accounts, so that Customers can easily compare Payment Stablecoin products, redemption terms, and fee structures across issuers?

Question 196: Should the NCUA establish any guardrails on the use of artificial intelligence or automated-decision making systems by NCUA-Licensed PPSIs in the context of risk management, redemption processing, or reserve asset management? Are there particular AI-related operational risks unique to Payment Stablecoin issuance that the proposed rule does not adequately address?

Question 197: Many stablecoins are heavily concentrated on one or two public blockchains. Should the NCUA require NCUA-Licensed PPSIs to assess and disclose the risks of dependence on a single blockchain protocol, including the risk that a protocol upgrade, fork, or failure could impair redemption?

Question 198: Should the NCUA establish requirements for the treatment of "lost" or unclaimed Payment Stablecoins (e.g., due to lost Private Keys or dormant accounts), including escheatment procedures or Customer notification requirements?

Question 199: Should the NCUA require independent audits of smart contracts used in Payment Stablecoin issuance and redemption, and should audit results be made public to enhance transparency and Customer trust?

VI. Regulatory Procedures

A. Providing Accountability Through Transparency Act of 2023

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

In summary, the proposed rule would supplement the NCUA's February 2026 proposal for approval and licensure of permitted payment stablecoin issuers (PPSIs) subject to the NCUA's jurisdiction by providing standards for PPSIs subject to the NCUA's jurisdiction, as required by the Guiding and Establishing National Innovation for U.S. Stablecoins Act (GENIUS Act). This proposal would also make amendments to address share insurance coverage, tokenized shares, and other conforming and clarifying amendments.

The proposal and the required summary can be found at https://www.regulations.gov.

B. Executive Orders 12866, 13563, and 14192

Pursuant to Executive Order 12866 ("Regulatory Planning and Review"), as amended by Executive Order 14215, a determination must be made whether a regulatory action is significant and therefore subject to review by the Office of Management and Budget (OMB) in accordance with the requirements of the Executive Order.[271] Executive Order 13563 ("Improving Regulation and Regulatory Review") supplements and reaffirms the principles, structures, and definitions

[271] 58 FR 51735 (Oct. 4, 1993).

governing contemporary regulatory review established in Executive Order 12866.[272] This proposed rule was drafted and reviewed in accordance with Executive Order 12866 and Executive Order 13563. OMB has determined that this proposed rule is an economically significant regulatory action under Section 3(f)(1) of Executive Order 12866 and, therefore, is subject to review under Executive Order 12866.

Executive Order 14192 ("Unleashing Prosperity Through Deregulation") requires that any new incremental costs associated with new regulations shall, to the extent permitted by law, be offset by the elimination of existing costs associated with at least 10 prior regulations.[273] This proposed rule, if finalized as proposed, is expected to be a deregulatory action under Executive Order 14192. NCUA estimates this rule generates $112.6 million in annualized cost savings at a 7% discount rate, discounted relative to year 2024, over a perpetual time horizon.

Scope of Affected Entities

For the purposes of this analysis and Paperwork Reduction Act estimates, NCUA estimates 10 applicants would apply for and be approved as an NCUA-Licensed PPSI in the first few years after the enactment of the proposed rule. Based on current CUSO ownership data, approximately 70 percent are wholly owned. Applying this to the estimated number of PPSIs assumes seven of the ten are wholly owned for consolidation purposes.

To estimate the impact of the proposal, NCUA estimated the total expected issuance per NCUA-Licensed PPSI, using private sector forecasts of aggregate stablecoin issuance, which put the upper bounds at $500 billion in 2026. However, considering the smaller market share credit union's hold in the financial services space, NCUA conservatively assumed a much lower issuance level for NCUA-Licensed PPSIs of $10 billion.

Beyond the direct issuance of Payment Stablecoins under section 4 of the GENIUS Act, the proposed rule would also encompass FICUs that participate in Payment Stablecoin-related

[272] 76 FR 3821 (Jan. 21, 2011).
[273] 90 FR 9065 (Feb. 6, 2025).

activities, as Parent Companies or custodians, consistent with the GENIUS Act. As with estimating the number of NCUA-Licensed PPSIs, the NCUA recognizes significant uncertainty regarding the number of FICUs that would participate in these activities. For the purposes of providing a conservative estimate, the NCUA assumes that approximately 15 FICUs would perform one or more of the activities authorized under the proposed rule.[274]

These estimates establish numbers that serve as the basis for evaluating the costs, benefits, and economic effects of the proposed rule, while acknowledging the inherent uncertainty resulting from a lack of historical precedent.

Baseline

The baseline for this analysis assumes no statutory requirement to establish a consistent framework for PPSIs. Without the statute, and codifying rule, there would be a lack of clarity about which entities could issue Payment Stablecoins and general requirements for Payment Stablecoin issuer applicants. This could potentially result in lower consumer adoption because of uncertainty with the safety of Payment Stablecoins and potentially dampen the market for entities to engage in this activity. Persons are more likely to invest in infrastructure and technology to facilitate stablecoin usage when there is regulatory certainty surrounding the activity. Additionally, the requirement for a consistent framework for all PPSIs helps to ensure that a certain category of issuers do not have a competitive advantage over others. The baseline for this analysis assumes no statutory requirement to establish a consistent framework for PPSIs. To calculate estimated costs, the agency assumes that in the baseline, with no established framework, fewer FICU subsidiaries will issue Payment Stablecoins and estimate that only four FICU subsidiaries would become Payment Stablecoin issuers.

Costs and Benefits to Credit Union System

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[274] This number is consistent with the number of FICUs that report offering digital asset services as of December 31, 2025.

Ideally, a cost-benefit analysis would identify and monetize, with confidence, all costs and benefits of a regulation. Many financial regulations, however, generate costs and/or benefits that cannot be measured with any degree of precision. In this analysis NCUA has included an evaluation of non-quantified benefits and costs as well as quantified benefits and costs.

The main effect of the proposed rule will be to boost aggregate market capitalization of Payment Stablecoins (the likely response to increased demand for stablecoins with greater adoption) in both the credit union system and the broader financial services industry.

If finalized, the proposed rule would establish a new regulatory framework for Payment Stablecoins issued by subsidiaries of FICUs. The new framework could encourage FICU subsidiaries to issue Payment Stablecoins and lead to an expansion of the Payment Stablecoin market. The expansion would provide the general public with more choices for making payments and engaging in transactions and provide regulatory clarity for FICUs seeking to engage in Payment Stablecoin activities.

Costs and benefits are categorized as follows: a) reporting, recordkeeping, and compliance; b) capital requirements; and c) custody authority.

Reporting, Recordkeeping, and Compliance

The requirements established by the proposed rule, consistent with the GENIUS Act, would benefit the industry by promoting safety and soundness of NCUA-Licensed PPSIs. The proposed rule includes a number of safeguards to protect Payment Stablecoin holders, such as the standards related to minimum reserve requirements, composition of reserves, and redemption policies, among others.

The proposed rule would also benefit Customers by providing a more secure environment, relative to the baseline, for activities related to Payment Stablecoins. The proposed rule would provide Customers increased assurance that their Payment Stablecoins are subject to elevated regulatory and supervisory standards. By codifying requirements and standards for reserves, redemption policies, and operational and compliance standards, among others, the

proposed rule would require that Payment Stablecoin holders are able to redeem Payment Stablecoins issued by an NCUA-Licensed PPSI at par, including during periods of market stress.

Compliance with the Bank Secrecy Act under the proposed rule, as required by the GENIUS Act, would promote maintaining AML/CFT principles as the financial system integrates new payment technologies, and reduce the frequency and severity of harm caused by criminal activity facilitated through a fragmented digital asset regulatory framework.

For purposes of fulfilling the requirements of the Paperwork Reduction Act (PRA), the NCUA has estimated the average costs associated with the recordkeeping, reporting, and disclosure requirements in the proposed rule.[275] While these costs only represent a portion of the total burden costs imposed by the proposed rule, these costs can help estimate a minimum level of the expected costs incurred by the affected populations.

NCUA-Licensed PPSIs would be required under the proposed rule to create and maintain systems of records related to reserve management and internal audits, establish contingency and restoration plans, and maintain AML/CFT and sanctions compliance programs. The proposed rule mandates submission of quarterly reports, annual audited financial statements, and weekly reports to the NCUA. In addition, PPSIs would be required to provide certain reporting to the board of directors on interest rate risk and certify compliance with AML and sanctions compliance programs annually. These efforts will require various reporting, training, and auditing expenses. The following narrative describes the most material costs expected as a result of the proposed rule, based on PRA analysis. This includes the estimated costs to comply with referenced rules related to AML/CFT and the sanctions compliance program. For a complete listing of PRA burden estimates, please see Section VI D.

- Weekly reporting is estimated to require one hour per week. The total weekly burden for 10 NCUA-licensed PPSIs annually is 520 hours.

[275] These requirements are described fully in Section VI.D.

- Submission of quarterly reports is estimated to be a total of 640 hours annually (16 hours each quarter, per PPSI)
- Submission of audited financial statement audits each year is estimated to take 704 hours annually, totaling 7,040 for 10 PPSIs.
- Regular reporting to the board of directors on interest rate risk management is estimated to average 40 hours each month for a total of 4,800 burden hours.
- The burden for publishing the monthly Reserve Asset composition report is estimated at 48 hours a month, for a total of 4,800 hours in aggregate.
- The proposed rule mandates annual certification that anti-money laundering and economic sanctions programs have been implemented. NCUA estimates the average annual burden of these activities as 80 hours a year for a total of 800 hours for 10 PPSIs.

NCUA estimates that NCUA-Licensed PPSIs would incur an average of 13,800 hours of burden for these activities. The results in a total of $1.73 million using an estimated hourly labor compensation rate of $92.85.[276] In addition, it is estimated that each PPSI will incur costs of $24,983 in the first year to comply with AML/CFT and sanctions compliance requirements, totaling $249,830 for the 10 estimated NCUA-Licensed PPSIs.[277] In total, NCUA-licensed PPSIs would incur an aggregate $1.98 million in estimated costs to comply with the proposed rule's implementation requirements.

Capital

To estimate the monetary cost of the capital requirements in the proposed rule NCUA assumes an average cost of capital for each issuer and makes other assumptions regarding the inputs to the cost calculations. To calculate the cost of equity capital requirements, NCUA assume that all issuers will initially be required to maintain the minimum amount of capital

[276] Estimated hourly compensation rate is based on the total compensation cost for the Financial Activities Industry, Management, business, and financial occupations series from the Bureau of Labor and Statistics (Table 4. Private industry workers by occupational and industry group - 2025 Q04 Results)
[277] *See* 91 FR 18582 (Apr. 10, 2026).

which includes the $5M requirement for de novo PPSIs and the ongoing 12-month-operating-expense backstop.

For the cost-of-capital calculation, NCUA assumes 10 NCUA-Licensed PPSIs in year one and the upper-bound for market size, measured by the value of outstanding payment stablecoins, will be $10 billion per NCUA-Licensed PPSI. Additionally, it is assumed that seven NCUA-Licensed PPSIs will be wholly owned and therefore consolidated with the parent FICU.

The cost of capital is the ongoing yearly required return on capital that is expected issuers will pay to obtain equity to satisfy capital requirements. The current estimate of the cost of capital in the banking industry ranges from 5-9 percent. For conservative calculations, NCUA is using 5.73% to account for the lower opportunity cost for credit unions and their subsidiaries due to investment limitations.[278]

This estimate assumes that the 12-month operating expense amount for each issuer to be 0.40% of outstanding payment stablecoins. This cost estimate is a conservative estimate of operating costs of government money market mutual funds and the stablecoin issuer Circle (CLCR)'s 10-Qs as reported pursuant to the Securities Exchange Act of 1934.

The first step calculates the total minimum required capital under the proposal for all expected NCUA-Licensed PPSIs. This includes the fixed $5 million capital requirement and the backstop.

To determine the fixed capital cost, NCUA multiplied the $5 million requirement by 10 to arrive at an aggregate capital requirement of $50 million. The cost of the aggregate $50 million of equity capital multiplied by 5.73% equals $2.87 million.

The estimate for the backstop, which is a capital requirement equal to 12 months of operating costs is 0.40% times the expected $100 billion in outstanding stablecoin issuance ($10 billion estimated issuance times 10 estimated NCUA-Licensed PPSIs) which amounts to $400

[278] The cost of capital is based on the Bank(Regional) measure found at https://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/wacc.html.

million. The cost of this $400 million of required capital is the amount of capital times the cost of equity capital (5.73%), which totals $22.9 million.

The total cost of minimum capital requirements for the proposed rule is $25.79 million, the sum of the cost of capital for the backstop ($22.9 million) and the fixed capital requirement ($2.87 million).

Under the baseline, we assume fewer FICU subsidiaries will issue Payment Stablecoins and for those that do, payment stablecoins issued would have been treated as standard balance sheet assets when consolidated with the parent FICU. Therefore, all stablecoin reserve assets would have been subject to the FICU leverage ratio. We assume that all stablecoin reserve assets would have counted toward the leverage requirement for all FICU subsidiaries. We use a capital requirement of 7%, which equals the capital requirement under the leverage ratio to be well capitalized.

Using the above estimate of $10 billion in issuances per issuer and an estimate of only four FICU subsidiary Payment Stablecoin issuers, assumes a total of $40 billion in issuances among the four wholly owned subsidiaries. With $40 billion in stablecoin issuance in the first year, NCUA estimates that these issuers would have $40 billion in stablecoin reserve assets subject to the capital requirement. Given these assumptions, these four wholly owned subsidiaries would need $2.8 billion in additional capital to cover the stablecoin reserves under the leverage ratio. The cost of this capital under the baseline is estimated to be $160.4 million ($2.8 billion x 5.73%). Therefore, after accounting for the regulatory baseline, we estimate the capital requirements under the proposed rule to result in a net savings of approximately $134.6 million in capital relative to the regulatory baseline.[279]

[279] This is an estimate of the impact to capital based on the assumptions provided. Actual net savings or costs may vary based on a variety of factors, but illustrates the expected outcome based on the qualitative and quantitative costs and benefits of the rule.

Therefore, we estimate that the proposed rule creates deregulatory cost savings relative to the baseline by allowing NCUA-Licensed PPSIs to hold capital against reserve assets only as required under the proposed rule, rather than applying the leverage ratio applicable to FICUs.

Custody

The proposed rule will likely result in FICUs offering new fee-based income streams from digital asset custody, settlement services, and other related payment stablecoin activities. The ability to settle obligations on-chain using a regulated instrument could provide operational efficiencies and lower costs associated with a FICU's internal accounting functions. By establishing a definitive set of requirements and standards associated with Payment Stablecoins, the proposed rule would benefit FICUs by providing additional opportunities to leverage their existing membership base, payment system networks, risk management, and compliance infrastructures to compete effectively in the digital payments market.

The proposed rule imposes mandates governing certain custodial activities of FICUs and NCUA-Licensed PPSIs.[280] Because this is largely a new activity for FICUs and their subsidiaries, engaging in custody and safekeeping services will likely result in additional costs under the proposed rule. For example, under the proposed rule, these entities would be required to establish and maintain policies, procedures, and systems to protect customer payment stablecoin reserves, payment stablecoins, private keys, cash, and other property.

The NCUA does not have the data necessary to fully quantify these costs, but expects they would generally be mitigated by the ability of a covered custodian to generate additional revenue through custody and safekeeping services.

Total Estimated Costs/Savings

[280] Specifically, the proposed rule imposes requirements relating to the custody of "covered assets" which are payment stablecoin reserves, payment stablecoins used as collateral, and private keys used to issue payment stablecoins, as well as cash and other property received in the course of the provision of custody services for such assets.

Based on the analysis above, NCUA estimates the total annual cost savings of the proposed rule to be $132.6 million, driven mainly by the capital relief in the proposed rule for capital that would otherwise have had to been held when consolidating the FICU subsidiaries. This considers the $1.98 million annual cost for reporting, recordkeeping, and compliance; the $25.8 million annual cost of capital for NCUA-Licensed PPSIs; and the $160.4 million in annual *savings* from the capital relief when consolidating subsidiaries.

C. Regulatory Flexibility Act

The Regulatory Flexibility Act[281] generally requires an agency to conduct a regulatory flexibility analysis of any rule subject to notice and comment rulemaking requirements, unless the agency certifies that the rule will not have a significant economic impact on a substantial number of small entities. If the agency makes such a certification, it shall publish the certification at the time of publication of either the proposed rule or the final rule, along with a statement providing the factual basis for such certification.[282] For purposes of this analysis, the NCUA considers small credit unions to be those having under $100 million in assets.[283] The NCUA fully considered the potential economic impacts of the regulatory amendments on small credit unions.

This rule will only apply to FICUs that wish to invest in NCUA-approved PPSIs, which are generally CUSOs for purposes of this rule, and provide permissible safekeeping and custody services. The NCUA does not anticipate a significant number of small credit unions will invest in PPSIs or work with a subsidiary (CUSO) to apply to become a PPSI. As of June 30, 2025, only 19 percent of small credit unions have invested in a CUSO, compared to 71 percent of credit unions with assets over $100 million supporting that the majority of NCUA-licensed PPSI applicants will be subsidiaries of larger FICUs. However, to establish the upper limit of estimated small credit unions that would have subsidiaries that become NCUA-licensed PPSIs,

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[281] 5 U.S.C. 601 *et seq*.
[282] 5 U.S.C. 605(b).
[283] 80 FR 57512 (Sept. 24, 2015).

we can compare the total number of estimated NCUA-licensed PPSIs used for regulatory analysis (10) in this rulemaking to the total number of small credit unions (2,514 as of December 31, 2025) .If all 10 of the estimated NCUA-licensed PPSIs were subsidiaries of small credit unions, this would equate to 0.40 percent of small entities, which is not considered substnatial. Similarly NCUA does not anticipate a substantial number of small credit unions will provide the safekeeping and custody services provided for in the GENIUS Act due to the sophisticated infrastructure necessary for such activities.

Accordingly, the NCUA certifies the proposed rule would not have a significant economic impact on a substantial number of small credit unions.

D. Paperwork Reduction Act

This notice of proposed rulemaking has been reviewed for compliance with the Paperwork Reduction Act of 1995 (PRA) (44 U.S.C. 3501 et seq.). In accordance with the PRA, the NCUA may not conduct or sponsor, and an organization is not required to respond to, an information collection unless the information collection displays a currently valid Office of Management and Budget (OMB) control number. The NCUA has reviewed the notice of proposed rulemaking and determined that it would introduce new information collection requirements pursuant to the PRA. The NCUA is seeking a new control number for these information collection requirements and will submit them to OMB for review and approval.

Proposed Information Collection

Title of Information Collection: Requirements and Standards Associated with the Guiding and Establishing National Innovation for U.S. Stablecoins (GENIUS) Act for the Issuance of Stablecoins by Entities Subject to the Jurisdiction of the National Credit Union Administration.

OMB Control Number: 3133-NEW.

Type of Review: Regular.

Affected Public: Private Sector: Not-for-profit institutions.

Description: The proposed rule would establish regulatory requirements for NCUA-supervised permitted payment stablecoins issuers as mandated by the GENIUS Act, as well as provide further clarity for NCUA-supervised custodians.

The information collection requirements in the proposed rule are as follows:

NCUA Summary of Estimated Annual Burden (3133-NEW)						
Implementation Burden						
12 CFR	Information Collection (IC) Activity	Type of Burden	Number of Respondents	Number of Responses per Respondent (Frequency)	Average Time per Response (Hours)	Total Estimated Annual Burden (Hours)
706.108(a)	Written request to NCUA Board for opportunity to appeal application denial.	Reporting	10	1	1	10
706.110(a)	Certification of AML program	Reporting	10	1	4	40
706.201(c)(4)(iii)	Rebut the presumption described in 706.201(c)(4)(i), by submitting written materials that demonstrate that the contract, agreement, or other arrangement is not prohibited under 706.201(c)(4)	Reporting	10	1	1	10
706.201(c)(5)(iii)(B)	Allows PPSIs to address liquidity needs by selling reserves held as Treasury bills with maturities of 93 days or less through repurchase agreements, provided they first obtain approval from the NCUA.	Reporting	10	1	4	40
706.202(a)(2)	Demonstrate the capability to access and monetize identifiable reserve assets.	Reporting	10	1	4	40
706.202(g)(1)	Notify the NCUA whenever their reserve assets fall below the minimum required level.	Reporting	10	1	1	10
706.203(c)(4)	Notify the NCUA within 24 hours if redemption requests for a PPSI exceed 10% of its total outstanding issuance value within a single day.	Reporting	10	1	0.5	5
706.204(a)(3)	Requires PPSIs to periodically regularly report on interest rate risk to management and the board of directors.	Reporting	10	1	160	1,600
706.204(b)(7)(i)	Investigate unauthorized access to sensitive customer data and, if misuse is confirmed or likely, notify affected customers and the NCUA promptly.	Reporting	10	1	4	40
706.204(b)(7)(ii)	If a PPSI determines that a group of files has been accessed improperly but is unable to identify which specific customers' information has been accessed and the PPSI determines that	Reporting	10	1	4	40

	misuse of the information is reasonably possible, it would be required to notify all customers in the group.					
706.205(h)	Submit a confidential weekly report to the NCUA in a specified format, with the necessary information as outlined in forms made available on the NCUA website.	Reporting	10	1	16	160
706.205(i)	Submit quarterly reports on financial condition within 30 days after each quarter ends.	Reporting	10	1	80	800
706.205(j)	Submit other reports on financial condition requested by the NCUA upon request.	Reporting	10	1	16	160
706.205(k)	Submit ongoing compliance reports to the NCUA. Specifically, within 180 days of application approval and then annually, the PPSIs Board of Directors must certify that anti-money laundering and economic sanctions compliance programs have been implemented.	Reporting	10	1	80	800
706.205(l)(2)(ii)	Submit audited financial statements annually, within 120 days after the end of its fiscal year to the NCUA.	Reporting	10	1	480	4,800
706.205(l)(2)(iii)	Submit a written notice of late filing to NCUA.	Reporting	10	1	8	80
706.205(m)	Any person intending to acquire control of an licensed PPSI must comply with the procedures outlined in proposed 12 CFR § 706.111 of Subpart A, including providing a 60-day advance notice to the NCUA.	Reporting	10	1	2	20
706.400(b)(1)(iii)	Submit request for prior approval from the NCUA to redeem discretionary repurchases	Reporting	10	1	1	10
706.400(c)(v)(A)	Submit request for prior approval from the NCUA to exercise a call option	Reporting	10	1	1	10
706.400(c)(1)(vi)	Submit request for prior approval from the NCUA for redemption or repurchase of the instrument.	Reporting	10	1	1	10
706.402(c)(2)(i)	Respond in writing, within 30 days when notified by the NCUA about proposed additional capital or backstop requirements	Reporting	10	1	40	400
706.402(c)(4)	Submit an acceptable plan to reach the additional capital or backstop requirements	Reporting	10	1	40	400
706.202(a)(1)	Maintain records that are identifiable and segregated from other assets owned or held by the PPSI and calculate the fair value of reserve assets	Recordkeeping	10	1	40	400
706.202(f)(2)	Requires the CEO and CFO (or their equivalents) to submit to NCUA a certification of accuracy	Recordkeeping	10	1	8	80
706.203(b)	Establish a redemption policy	Recordkeeping	10	1	8	80
706.204(a)(1)	Establish internal controls and information systems that are suitable for their size, complexity, and activity risk	Recordkeeping	10	1	80	800
706.204(a)(2)	Develop an internal audit system tailored to their size, complexity, and risk profile.	Recordkeeping	10	1	80	800

706.204(a)(5)	Create and maintain a system, appropriate to size and operational complexity, for evaluating and monitoring earnings.	Recordkeeping	10	1	80	800
706.204(a)(6)(i)(C)	Document transactions with insiders or affiliates and have these transactions reviewed by the board of directors.	Recordkeeping	10	1	8	80
706.204(b)(1)(2)(3)(4)(6) and (8)	Establish requirements for information technology and security programs for PPSIs and implement a comprehensive written information security risk control framework, including a program that assesses and managements IT and information security risks	Recordkeeping	10	1	160	1,600
706.204(b)(5)	Establish and maintain security measures for the handling of digital assets.	Recordkeeping	10	1	80	800
706.205(f)	Maintain a complete set of books and records in English	Recordkeeping	10	1	40	400
706.205(g)	Develop a records retention policy that ensures that can demonstrate compliance with the GENIUS Act 12 CFR part 15, and all applicable laws and regulations.	Recordkeeping	10	1	40	400
706.205(1)	PPSIs with over $50 billion in outstanding issuance value, must prepare annual financial statements in accordance with GAAP.	Recordkeeping	10	1	160	1,600
706.302(b)(1)	Requires covered custodians to have written controls to protect customer assets from creditor claims, including those of sub-custodians, in compliance with applicable laws and suited to their business size and risk.	Recordkeeping	s10	1	8	80
706.202(e)	Publish monthly composition report on their website detailing reserve assets .	Disclosure	10	1	40	400
706.203(a)	Publicly disclose a redemption policy	Disclosure	10	1	1	10
706.203(d)(1)	Publicly disclose certain information related to the PPSI, the payment stablecoin, and fees	Disclosure	10	1	8	80
706.205(1)(2)(i)	Disclose audited financial statements on PPSIs website	Disclosure	10	1	16	160
706.504	Disclose to the NCUA the same non-public information provided to FinCEN	Disclosure	10	1	1	10
Ongoing Burden						
706.201(c)(4)(iii)	Rebut the presumption described in 706.201(c)(4)(i), by submitting written materials that demonstrate that the contract, agreement, or other arrangement is not prohibited under 706.201(c)(4)	Reporting	10	1	1	10
706.201(c)(5)(iii)(B)	Allows PPSIs to address liquidity needs by selling reserves held as Treasury bills with maturities of 93 days or less through repurchase agreements, provided they first obtain approval from the NCUA.	Reporting	10	1	1	10
706.202(a)(2)	Demonstrate the capability to access and monetize identifiable reserve assets.	Reporting	10	1	16	160
706.202(g)(1)	Notify the NCUA whenever their reserve assets fall below the minimum required level.	Reporting	10	1	1	10

706.203(c)(4)	Notify the NCUA within 24 hours if redemption requests for a PPSI exceed 10% of its total outstanding issuance value within a single day.	Reporting	10	1	0.5	5
706.204(a)(3)	Requires PPSIs to periodically regularly report on interest rate risk to management and the board of directors.	Reporting	10	12	40	4800
706.204(b)(7)(i)	Investigate unauthorized access to sensitive customer data and, if misuse is confirmed or likely, notify affected customers and the NCUA promptly.	Reporting	10	1	1	10
706.204(b)(7)(ii)	If a PPSI determines that a group of files has been accessed improperly but is unable to identify which specific customers' information has been accessed and the PPSI determines that misuse of the information is reasonably possible, it would be required to notify all customers in the group.	Reporting	10	1	1	10
706.205(h)	Submit a confidential weekly report to the NCUA in a specified format, with the necessary information as outlined in forms made available on the NCUA website.	Reporting	10	52	1	520
706.205(i)	Submit quarterly reports on financial condition within 30 days after each quarter ends.	Reporting	10	4	16	640
706.205(j)	Submit other reports on financial condition requested by the NCUA upon request.	Reporting	10	1	40	400
706.205(k)	Submit ongoing compliance reports to the NCUA. Specifically, within 180 days of application approval and then annually, the PPSIs Board of Directors must certify that anti-money laundering and economic sanctions compliance programs have been implemented.	Reporting	10	1	8	80
706.205(l)(2)(ii)	Submit audited financial statements annually, within 120 days after the end of its fiscal year to the NCUA.	Reporting	10	1	40	400
706.205(l)(2)(iii)	Submit a written notice of late filing to NCUA.	Reporting	10	1	16	160
706.205(m)	Any person intending to acquire control of an licensed PPSI must comply with the procedures outlined in proposed 12 CFR § 706.111 of Subpart A, including providing a 60-day advance notice to the NCUA.	Reporting	10	1	2	20
706.400(b)(1)(iii)	Submit request for prior approval from the NCUA to redeem discretionary repurchases	Reporting	10	1	1	10
706.400(c)(v)(A)	Submit request for prior approval from the NCUA to exercise a call option	Reporting	10	1	1	10
706.400(c)(1)(vi)	Submit request for prior approval from the NCUA for redemption or repurchase of the instrument.	Reporting	10	1	1	10
706.402(c)(2)(i)	Respond in writing, within 30 days when notified by the NCUA about proposed additional capital or backstop requirements	Reporting	10	1	1	10
706.402(c)(4)	Submit an acceptable plan to reach the additional capital or backstop requirements	Reporting	10	1	1	10
706.202(a)(1)	Maintain records that are identifiable and segregated from other assets owned or held by the PPSI and calculate the fair value of reserve assets	Recordkeeping	10	1	4	40

706.202(f)(2)	Requires the CEO and CFO (or their equivalents) to submit to NCUA a certification of accuracy	Recordkeeping	10	12	0.5	60
706.203(b)	Maintain a redemption policy	Recordkeeping	10	1	1	10
706.204(a)(1)	Maintain internal controls and information systems that are suitable for their size, complexity, and activity risk	Recordkeeping	10	1	1	10
706.204(a)(2)	Maintain an internal audit system tailored to their size, complexity, and risk profile. not warranted.	Recordkeeping	10	1	1	10
706.204(a)(5)	Create and maintain a system, appropriate to size and operational complexity, for evaluating and monitoring earnings.	Recordkeeping	10	1	1	10
706.204(a)(6)(i)(C)	Document transactions with insiders or affiliates and have these transactions reviewed by the board of directors.	Recordkeeping	10	1	1	10
706.204(b)(1)(2)(3)(4)(6) and (8)	Maintain requirements for information technology and security programs for PPSIs and implement a comprehensive written information security risk control framework, including a program that assesses and managements IT and information security risks	Recordkeeping	10	1	1	10
706.204(b)(5)	Maintain security measures for the handling of digital assets.	Recordkeeping	10	1	1	10
706.205(f)	Maintain a complete set of books and records in English	Recordkeeping	10	1	8	80
706.205(g)	Maintain a records retention policy that ensures that can demonstrate compliance with the GENIUS Act 12 CFR part 15, and all applicable laws and regulations.	Recordkeeping	10	1	1	10
706.205(1)	PPSIs with over $50 billion in outstanding issuance value, must prepare annual financial statements in accordance with GAAP.	Recordkeeping	10	1	1	10
706.302(b)(1)	Requires covered custodians to have written controls to protect customer assets from creditor claims, including those of sub-custodians, in compliance with applicable laws and suited to their business size and risk.	Recordkeeping	10	1	8	80
706.202(e)	Publish monthly composition report on their website detailing reserve assets .	Disclosure	10	12	8	960
706.203(a)	Publicly disclose a redemption policy	Disclosure	10	1	1	10
706.203(d)(1)	Publicly disclose certain information related to the PPSI, the payment stablecoin, and fees	Disclosure	10	1	1	10
706.205(1)(2)(i)	Disclose audited financial statements on PPSIs website	Disclosure	10	1	8	80
706.504	Disclose to the NCUA the same non-public information provided to FinCEN	Disclosure	10	1	1	10
Total Estimated Annual Burden (Hours): 26,770						

The NCUA invites comments on: (a) Whether the proposed collection of information is necessary for the proper performance of the functions of the agency, including whether the information will have practical utility; (b) the accuracy of the agency's estimate of the burden of

the proposed collection of information, including the validity of the methodology and assumptions used; (c) ways to enhance the quality, utility, and clarity of the information to be collected; and (d) ways to minimize the burden of the collection of information on those who are to respond, including through the use of appropriate automated, electronic, mechanical, or other technological collection techniques or other forms of information technology; and (e) estimates of capital or start-up costs and cost of operation, maintenance, and purchase of services to provide information.

All comments are a matter of public record. Interested persons are invited to submit written comments via email to (1) PRAComments@ncua.gov or (2) visit www.reginfo.gov/public/do/PRAMain (find this particular information collection by selecting the tab titled "Information Collection Review" and click on to the section titled "Currently under Review – Open for Public comment").

E. Executive Order 13132 on Federalism

Executive Order 13132 encourages regulatory agencies to consider the impact of their actions on State and local interests. The NCUA, an agency as defined in 44 U.S.C. 3502(5), complies with the executive order to adhere to fundamental federalism principles. As required by the GENIUS Act, the proposed rule would require that all FICU subsidiaries, including subsidiaries of FISCUs, seeking to become PPSIs apply to the NCUA for licensure. It would also impose standards on NCUA-Licensed PPSIs. As any subsidiary of a FISCU cannot be licensed a permitted State payment stablecoin regulator, the rulemaking would not have direct effect on the states, the relationship between the national government and the states, or on the distribution of power and responsibilities among the various levels of government.

F. Assessment of Federal Regulations and Policies on Families

The NCUA has determined that this proposed rule would not affect family well-being within the meaning of Section 654 of the Treasury and General Government Appropriations Act,

1999.[284] While the proposed rule could contribute to an expansion in access to Payment Stablecoin services, the effect would be indirect and not easily quantifiable.

List of Subjects

12 CFR Part 702

Credit unions, Reporting and recordkeeping requirements.

12 CFR Part 704

Credit unions, Reporting and recordkeeping requirements, Surety bonds.

12 CFR Part 706

Accounting, Advertising, Anti-Money Laundering, Appeals, Applications, Control, Credit unions, Credit union service organizations, Deadlines, Denials, Federal Credit Union Act, Filings, Guiding and Establishing National Innovation for U.S. Stablecoins Act, Hearings, Investigations, Investments, Jurisdiction, Licensing, Payment stablecoins, Permitted payment stablecoin issuers, Reports, Requirements, Safe harbor, Sanctions, Shareholders, Subsidiaries, Technology.

12 CFR Part 745

Credit, Credit Unions, Share Insurance.

12 CFR Part 747

Administrative practice and procedure, Claims, Credit unions, Crime, Equal access to justice, Investigations, Lawyers, Penalties, Share insurance.

By the National Credit Union Administration Board, this 14th day of May, 2026.

Ji Kwon,

Acting Secretary of the Board.

For the reasons stated in the preamble, the NCUA Board proposes to amend chapter VII of title 12 of the Code of Federal Regulations as follows:

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[284] Pub. L. 105–277, 112 Stat. 2681 (1998).

PART 702—CAPITAL ADEQUACY

1. The authority citation for part 702 continues to read as follows:

Authority: 12 U.S.C. 1757(9), 1766(a), 1784(a), 1786(e), 1790d.

* * * * *

2. Amend the definition of net worth in § 702.2 by adding paragraph (5) to read as follows:

§ 702.2 Definitions.

* * *

(5) *Permitted Payment Stablecoin Issuers*. An Insured Credit Union that is consolidated with a permitted payment stablecoin issuer, as defined in § 706.2 of this chapter, must make the following adjustments when calculating its net worth:

(i) Deconsolidate any permitted payment stablecoin issuer from the insured credit union's balance sheet, removing applicable assets, liabilities and equity;

(ii) Deduct from net worth any amount of positive retained earnings that originated from the permitted payment stablecoin issuer to the extent not paid out as dividends to the insured credit union; and

(iii) Exclude any investment in (to the extent not deducted under paragraph (5)(i) of this section) and receivable from the permitted payment stablecoin issuer when calculating total assets, as applicable.

(iv) Any amounts deducted from net worth under paragraph (5) are also deducted from total assets, to the extent not already deducted.

* * * * *

3. Amend § 702.104(b)(2) by:

i. In subparagraph (iv), removing "; and"

ii. Adding a new paragraph (v); and

iii. Renumbering current paragraph (v) as paragraph (vi) to read as follows:

§ 702.104 Risk-based capital ratio.

* * *

(b) * * *

(2) * * *

(iv) Identified losses not reflected in the risk-based capital ratio numerator.

(v) *Permitted Payment Stablecoin Issuers*. For an Insured Credit Union with a consolidated permitted payment stablecoin issuer, the deductions and deconsolidation required under paragraph (5) of the definition of net worth; and

(vi) Mortgage servicing assets that exceed 25 percent of the sum of the capital elements in paragraph (b)(1) of this section, less deductions required under paragraphs (b)(2)(i) thorough (v) of this section.

* * * * *

PART 704—CORPORATE CREDIT UNIONS

4. The authority citation for part 704 continues to read as follows:

Authority: 12 U.S.C. 1766(a), 1781, 1789.

5. Amend § 704.2 by amending the definitions of *Retained Earnings* and *Tier 1 capital* to read as follows.

§ 704.2 Definitions.

* * *

Retained earnings means undivided earnings, regular reserve, reserve for contingencies, supplemental reserves, reserve for losses, GAAP equity acquired in a merger, and other appropriations from undivided earnings as designated by management or the NCUA. Retained earnings does not include any amount of positive retained earnings that originated from a consolidated permitted payment stablecoin issuer to the extent not paid out as dividends to the insured credit union;

* * *

Tier 1 capital means the sum of items in paragraphs (1) and (2) of this definition from which items in paragraphs (3) through (8) of this definition are deducted or adjusted:

(1) Retained earnings;

(2) Perpetual contributed capital;

(3) Deduct the amount of the corporate credit union's intangible assets that exceed one half percent of its moving daily average net assets (however, the NCUA may direct the corporate credit union to add back some of these assets on the NCUA's own initiative, or the NCUA's approval of petition from the applicable State regulator or application from the corporate credit union);

(4) Deduct investments, both equity and debt, in unconsolidated CUSOs;

(5) Deduct an amount equal to any PCC or NCA that the corporate credit union maintains at another corporate credit union;

(6) Deduct any amount of PCC received from federally insured credit unions that causes PCC minus retained earnings, all divided by moving daily average net assets, to exceed two percent when a corporate credit union's retained earnings ratio is less than two and a half percent.

(7) Deduct any natural person credit union subordinated debt instrument held by the corporate credit union; and

(8) An Insured Credit Union that is consolidated with a permitted payment stablecoin issuer, as defined in § 706.2 of this chapter, must make the following adjustments when calculating its net worth:

(i) Deconsolidate any permitted payment stablecoin issuer from the insured credit union's balance sheet; and

(ii) Exclude any investment in (to the extent not deducted under paragraph (5)(i) of this section) and receivable from the permitted payment stablecoin issuer when calculating total assets, as applicable; and

(9) Mortgage servicing assets that exceed 25 percent of the sum of the capital elements in paragraphs (1) and (2) of this definition, less deductions required under paragraphs (3) thorough (8) of this section.

6. Add reserved part 706 to Subchapter A to read as follows:

CHAPTER VII—NATIONAL CREDIT UNION ADMINISTRATION

SUBCHAPTER A—REGULATIONS AFFECTING CREDIT UNIONS

PART 706—PAYMENT STABLECOINS

Authority: 12 U.S.C. 5901 *et seq.;*12 U.S.C. 1766(a), 1786, and 1789(a)(11).

§ 706.1 Authority, purpose, and scope.

(a) *Authority and purpose.* The NCUA is issuing this part pursuant to its authority under the Guiding and Establishing National Innovation for U.S. Stablecoins Act or GENIUS Act (12 U.S.C. 5901 *et seq.*).

(b) *Scope.* This part applies to insured credit unions and all payment stablecoin issuers with investment or loans from insured credit unions and sets forth the requirements for NCUA-issued licenses.

(c) *No limitation of authority.* Nothing in this part shall be read to limit the authority of the NCUA to take action under other law, including action to address unsafe or unsound practices or conditions, or violations of law or regulation, under section 206 of the FCU Act.

§ 706.2 Definitions.

Unless otherwise provided in this part, the terms used in this part have the same meanings as set forth in 12 U.S.C. 1752 and 5901. All accounting terms not otherwise defined in this section have meanings consistent with the commonly accepted meanings under United States generally accepted accounting principles (U.S. GAAP). The following definitions apply to this part:

Affiliate means a Person that controls, is controlled by, or is under common Control with another Person.

Applying Issuer means any entity applying to the NCUA for an NCUA permitted payment stablecoin issuer license.

Bank Secrecy Act means:

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

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

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

Control. A Person controls another Person if:

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

(2) The Person controls in any manner the election of a majority of the Directors or trustees of the other Person; or

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

Customer means a Person that purchases (through any consideration) the products or services of another person.

Digital Asset means any digital representation of value that is recorded on a cryptographically secured Distributed Ledger.

Director, as used in this part:

(1) Means an individual who serves on the board of directors of:

(a) An Applying Issuer;

(b) An NCUA-Licensed Permitted Payment Stablecoin Issuer;

(c) A Parent Company of an Applying Issuer or an NCUA-Licensed Permitted Payment Stablecoin Issuer; or

(d) A Principal Shareholder of the Applying Issuer or NCUA-Licensed Permitted Payment Stablecoin Issuer; and

(2) Does not include an advisory director who does not have the authority to vote on matters before the board of directors or any committee of the board of directors and provides solely general policy advice to the board of directors or any committee.

Distributed Ledger means technology in which:

(1) Data is shared across a network that creates a public digital ledger of verified transactions or information among network participants; and

(2) Cryptography is used to link the data to maintain the integrity of the public ledger and execute other functions.

Distributed Ledger Protocol means publicly available and accessible executable software deployed to a Distributed Ledger, including smart contracts or networks of smart contracts.

Eligible Financial Institution means

(1) A Person that:

(a) Is eligible to hold Reserve Assets in custody under section 10(a) of the GENIUS Act (12 U.S.C. 5909(a));

(b) Complies with the applicable requirements in section 10(b), (c), and (d) of the GENIUS Act (12 U.S.C. 5909(b), (c), and (d)), including with applicable implementing regulations issued by a relevant primary Federal payment stablecoin regulator as defined in 12 U.S.C. 5901(25), primary financial regulatory agency described in 12 U.S.C. 5301(12)(B) or (C), State bank supervisor, or State credit union supervisor; and

(c) If applicable, enters into a custody agreement with an NCUA-Licensed Permitted Payment Stablecoin Issuer documenting the Person's compliance with section 10(b), (c), and (d) of the GENIUS Act (12 U.S.C. 5909(b), (c), and (d)) as well as policies and procedures to ensure compliance; or

(2) A Federal Reserve Bank.

Fair Value means fair value as determined under GAAP.

FDIC means the Federal Deposit Insurance Corporation.

GAAP means generally accepted accounting principles as used in the United States.

Immediate Family means the spouse of an individual, the individual's minor children, and any of the individual's children (including adults) residing in the individual's home.

Insider means:

(1) An Officer or Director of an NCUA-Licensed Permitted Payment Stablecoin Issuer;

(2) Any Parent Company, and the Officers and Directors of the Parent Company, of an NCUA-Licensed Permitted Payment Stablecoin Issuer;

(3) Any Principal Shareholder, and Officers and Directors of the Principal Shareholder, of an NCUA-Licensed Permitted Payment Stablecoin Issuer; and

(4) A Related Interest of or the Immediate Family of any of these Persons.

Insured Credit Union has the meaning given to that term in section 101 of the Federal Credit Union Act (12 U.S.C. 1752).

Insured Depository Institution means:

(1) An insured depository institution, as defined in section 3 of the Federal Deposit Insurance Act (12 U.S.C. 1813(c)(2)); and

(2) An Insured Credit Union.

Issuing Group means the Applying Issuer or NCUA-Licensed Permitted Payment Stablecoin Issuer and its Parent Company(ies), and the Officers, Directors, and Principal Shareholders, if applicable, of the Applying Issuer or NCUA-Licensed Permitted Payment Stablecoin Issuer, its subsidiaries, and Parent Company(ies).

Monetary Value means a National Currency or deposit (as defined in section 3 of the Federal Deposit Insurance Act (12 U.S.C. 1813(l)) denominated in a National Currency.

Money means

(1) Monetary Value; and

(2) Any other medium of exchange that the NCUA has determined is currently authorized or adopted by a domestic or foreign government, including a monetary unit of account established by an intergovernmental organization or by agreement between two or more countries.

National Currency means—

(1) A Federal Reserve note (as the term is used in the first undesignated paragraph of section 16 of the Federal Reserve Act (12 U.S.C. 411));

(2) Money standing to the credit of an account with a Federal Reserve Bank;

(3) Money issued by a foreign central bank; or

(4) Money issued by an intergovernmental organization pursuant to an agreement by two or more governments.

NCUA-Licensed Permitted Payment Stablecoin Issuer means a Person formed in the United States that is a Subsidiary of an Insured Credit Union that has been approved and licensed by the NCUA under subpart A to issue Payment Stablecoins.

Nonpublic Personal Information, as used in this part:

(1) Means information—

(i) Provided by a Customer to an NCUA-Licensed Permitted Payment Stablecoin Issuer to obtain a financial product or service;

(ii) About a Customer resulting from any transaction involving a financial product or service between the NCUA-Licensed Permitted Payment Stablecoin Issuer and a Customer; or

(iii) Otherwise obtained by the NCUA-Licensed Permitted Payment Stablecoin Issuer in connection with providing a financial product or service to a Customer; and

(2) Does not include Publicly Available Information, unless such Publicly Available Information, when combined with other information, would reveal the identity of a Customer or would enable access to the Customer's account.

Officer means the president, chief executive officer, chief operating officer, chief financial officer, chief technology officer, chief lending officer, chief investment officer, chief risk officer, Bank Secrecy Act officer, and any other individual the NCUA identifies in writing to the Issuing Group who exercises significant influence over, or participates in, major policy making decisions of the Issuing Group without regard to title, salary, or compensation. The term also includes

employees of entities retained by an Issuing Group to perform such functions in lieu of directly hiring the individuals.

Outstanding Issuance Value means the total consolidated par value of all of an NCUA-Licensed Permitted Payment Stablecoin Issuer's Payment Stablecoins.

Parent Company means an insured credit union(s) that will own, control or hold the power to vote 10 percent or more of any class of voting securities, or has the ability to direct the management or policies, of a Permitted Payment Stablecoin Issuer. If no Insured Credit Union will own, control or hold the power to vote 10 percent or more of any class of voting securities, the Insured Credit Union with the largest percentage of voting securities in relation to all other insured credit unions is considered the Parent Company.

Payment Stablecoin, as used in this part:

(1) Means a Digital Asset—

(i) That is, or is designed to be, used as a means of payment or settlement; and

(ii) The issuer of which—

(A) Is obligated to convert, redeem, or repurchase for a fixed amount of Monetary Value, not including a Digital Asset denominated in a fixed amount of Monetary Value; and

(B) Represents that such issuer will maintain, or creates the reasonable expectation that it will maintain, a stable value relative to the value of a fixed amount of Monetary Value; and

(2) Does not include a Digital Asset that is a—

(i) National Currency;

(ii) deposit (as defined in section 3 of the Federal Deposit Insurance Act (12 U.S.C. 1813(l)), including a deposit recorded using Distributed Ledger technology; or

(iii) Security, as defined in section 2 of the Securities Act of 1933 (15 U.S.C. 77b), section 3 of the Securities Exchange Act of 1934 (15 U.S.C. 78c), or section 2 of the Investment Company Act of 1940 (15 U.S.C. 80a–2).

Person means an individual, partnership, company, corporation, association, trust, estate, cooperative organization, or other business entity, incorporated or unincorporated.

Principal Shareholder means a Person other than an Insured Credit Union that directly or indirectly or acting in concert with one or more Persons or companies, or together with members of their immediate family, will own, control, or hold the power to vote 10 percent or more of any class of voting securities.

Private Key means the unique alphanumeric sequence that allows an individual to transfer a particular unit of a Digital Asset using a Distributed Ledger.

Publicly Available Information means any information that a Person has a reasonable basis to believe is lawfully made available to the general public from:

(1) Federal, State, or local government records;

(2) Widely distributed media;

(3) Disclosures to the general public that are required to be made by Federal, State, or local law; or

(4) A Distributed Ledger.

Registered Public Accounting Firm has the meaning set forth in section 2 of the Sarbanes-Oxley Act of 2002 (15 U.S.C. 7201(12)).

Related Interest of a Person means:

(1) A company that is controlled by that Person; or

(2) A political or campaign committee that is controlled by that Person or the funds or services of which will benefit that Person.

Reserve Asset means an asset maintained by an NCUA-Licensed Permitted Payment Stablecoin Issuer of a type enumerated in § 706.202 (b).

Share Account means an "account" as defined in section 101 of the FCU Act (12 U.S.C. 1752(5).

State means each of the several States of the United States, the District of Columbia, and each territory of the United States.

Subsidiary of an Insured Credit Union means—

(1) An organization providing services to the Insured Credit Union that are associated with the routine operations of credit unions, as described in section 107(7)(I) of the Federal Credit Union Act (12 U.S.C. 1757(7)(I));

(2) A credit union service organization, as such term is used under part 712 of this title, with respect to which the Insured Credit Union has an ownership interest or to which the Insured Credit Union has extended a loan;

(3) A subsidiary of a State chartered Insured Credit Union authorized under State law; and

(4) A subsidiary of any entity that meets the definition of a Subsidiary of an Insured Credit Union. All tiers or levels of a Subsidiary of an Insured Credit Union are included as a Subsidiary of an Insured Credit Union.

Trading Volume means the aggregate number of Payment Stablecoins issued by an NCUA-Licensed Permitted Payment Stablecoin Issuer that were purchased or sold on exchanges during a specified period of time.

§ 706.3 Severability.

The provisions of this part are separate and severable from one another. If any provision is stayed or determined to be invalid, it is the NCUA's intention that the remaining provisions shall continue in effect.

Subpart A—Investment in and Approval of Issuers that are Subsidiaries of Insured Credit Unions

§ 706.101 Scope.

This subpart establishes the NCUA rules and procedures for Insured Credit Unions seeking to invest in Payment Stablecoin issuers and for Insured Credit Unions and their subsidiaries to jointly apply for an NCUA permitted payment stablecoin issuer license. It contains information on rules of applicability, where and how to file, and requirements and policies applicable to filings.

§ 706.102 Rules of general applicability.

(a) *NCUA's Permitted Stablecoin Issuer Licensing Manual*. The NCUA's "Permitted Stablecoin Issuer Licensing Manual" (Payment Stablecoin Issuer Manual) provides additional filing guidance, including policies and procedures. This Manual and sample forms are available at *www.ncua.gov*.

(b) *Electronic filing*. The NCUA encourages electronic filing for all filings. The NCUA's Payment Stablecoin Issuer Manual describes the NCUA's electronic filing procedures.

(c) *Reservation of authority.* The rules in this subpart apply to all sections in this part unless otherwise stated. The NCUA may adopt materially different procedures for a particular filing, or class of filings as it deems necessary, for example, in exceptional circumstances or for unusual transactions, after providing notice of the change to the filer and to any other party that the NCUA determines should receive notice.

(d) *Computation of time.* In computing the period of days under this subpart, the NCUA does not include the day of the act or event (*e.g.,* the date a filing is received by the NCUA) from which the period begins to run. When the last day of a period is a Saturday, Sunday, or Federal holiday, the period runs until the end of the next day that is not a Saturday, Sunday or Federal holiday.

§ 706.103 Filing required.

(a) *Filing.* A Subsidiary of an Insured Credit Union who seeks to issue Payment Stablecoins must apply to the NCUA for an NCUA permitted payment stablecoin issuer license and receive

approval before issuing Payment Stablecoins. This application must be filed jointly with any Insured Credit Union Parent Company(ies).

(b) *Where to file.* Any submission under this part should be submitted as provided in the NCUA's Payment Stablecoin Issuer Manual.

(c) *Prefiling meeting.* Before submitting a filing to the NCUA, a potential filer may contact the NCUA to discuss whether a prefiling meeting would be beneficial. The NCUA may grant a prefiling meeting on a case-by-case basis. Submission of a draft business plan or other relevant information before any prefiling meeting may expedite the filing review process. A potential filer considering a novel, complex, or unique proposal is encouraged to contact the NCUA to request a prefiling meeting early in the development of its proposal for the early identification and consideration of policy issues. Information on model business plans can be found in the NCUA's Payment Stablecoin Issuer Manual.

(d) *Certification.* An Applying Issuer, and all of its Parent Companies and any Principal Shareholders, must certify in writing that any filing or supporting material submitted to the NCUA contains no material misrepresentations or omissions. The NCUA may review and verify any information filed in connection with a notice or an application. Any Person responsible for any material misrepresentation or omission in a filing or supporting materials may be subject to enforcement action and other penalties, including criminal penalties provided in 18 U.S.C. 1001.

(e) *Filing fees*.

(1) The NCUA may require filing fees to accompany certain filings made under this subpart before it will accept those filings. If the NCUA requires the aforementioned filing fee, the NCUA will publish an applicable fee schedule on its website at *http://www.NCUA.gov.*

(2) Filing fees must be paid to the NCUA by electronic transfer.

§ 706.104 Investigations.

(a) *Authority.* The NCUA may examine or investigate and evaluate facts related to a filing to the extent necessary to reach an informed decision.

(b) *Fingerprints.* For certain filings, the NCUA requires fingerprints for a biometric based criminal history search.

§ 706.105 Evaluation of applications and factors to be considered.

(a) *Scope.* This section describes the procedures and requirements governing NCUA evaluation of an application to be an NCUA-Licensed Permitted Payment Stablecoin Issuer. The NCUA will evaluate each substantially complete application to determine whether approval would be consistent with the safety and soundness of the Applying Issuer based on the statutory evaluation factors set forth in this section. An applicant should consult the NCUA's Payment Stablecoin Issuer Manual to determine what other information is necessary for the NCUA to evaluate an application using the statutory evaluation factors described in this section.

(b) *Statutory evaluation factors.* The NCUA grants permitted payment stablecoin licenses under the authority of the Guiding and Establishing National Innovation for U.S. Stablecoins Act, 12 U.S.C. 5901 *et seq*., which requires the NCUA to evaluate:

(1) The ability of the Applying Issuer, based on financial condition and resources, to meet the requirements set forth under 12 U.S.C. 5903 and incorporated in subpart B of part 706;

(2) Whether an individual who has been convicted of a felony offense involving insider trading, embezzlement, cybercrime, money laundering, financing of terrorism, or financial fraud is serving as an Officer or Director of the Applying Issuer;

(3) The competence, experience, and integrity of the Officers, Directors, and Principal Shareholders of the Applying Issuer, its subsidiaries, and Parent Company, including:

(i) the record of those Officers, Directors, and Principal Shareholders of compliance with laws and regulations; and

(ii) the ability of those Officers, Directors, and Principal Shareholders to fulfill any commitments to, and any conditions imposed by, the NCUA in connection with the application at issue and any prior applications;

(4) Whether the redemption policy of the Applying Issuer meets the standards under 12 U.S.C. 5903(a)(1)(B) and incorporated in subpart B of part 706; and

(5) Any other factors established by the NCUA that are necessary to ensure the safety and soundness of the Applying Issuer.

(c) *Policy* —

(1) *In general.* In determining whether to approve an application to be an NCUA-Licensed Permitted Payment Stablecoin Issuer based on the statutory evaluation criteria in paragraph (c), the NCUA is guided by the following policy considerations as they relate to the Applying Issuer:

(i) Whether an Issuing Group has a record of compliance with laws and regulations and whether the Issuing Group is familiar with the laws and regulations applicable to NCUA-Licensed Permitted Payment Stablecoin Issuers and digital asset service providers;

(ii) Whether an Issuing Group has the ability to fulfill any commitments to, and any conditions imposed by, the NCUA in connection with the application at issue and any prior applications;

(iii) Whether an Issuing Group has competent management, including a board of directors, with ability and experience relevant to the types of services to be provided;

(iv) Whether an applicant has capital, liquidity, and capital and liquidity plans sufficient to support the projected volume and type of business;

(v) Whether an applicant has a redemption policy that meets all requirements in subpart B of this part;

(vi) Whether an applicant can reasonably be expected to achieve and maintain profitability; and

(vii) Whether an applicant can be operated in a safe and sound manner by evaluating criteria including, but not limited to, the following:

(A) the ability to meet the operational, compliance, and information technology risk management requirements and standards outlined in subparts B of this part; and

(B) the ability to maintain sufficient technological capabilities to comply with the terms of any lawful order and all applicable laws and regulations.

(2) *NCUA evaluation.* The NCUA evaluates an Issuing Group and its business plan together. The NCUA's judgment concerning one may affect the evaluation of the other. An Issuing Group and its business plan must be stronger in markets where economic conditions are marginal, competition is intense, or the services to be provided have greater or unknown risk.

(d) *Issuing Group* —

(1) *In general.* An Issuing Group must have the competence, experience, and integrity to be active in directing the Applying Issuer's affairs in a safe and sound manner. The business plan and other information supplied in the application, including the completed NCUA Biographical and Financial Report forms, must demonstrate an Issuing Group's collective ability to establish and operate a successful permitted payment stablecoin issuer in the economic and competitive conditions of the market to be served. This collective ability must be demonstrated with consideration of the activities to be engaged in by the Applying Issuer and the services it intends to provide. Each member of the Issuing Group must be knowledgeable about the business plan. An inadequate business plan may be a reason for the NCUA to deny an application because it reflects adversely on the Issuing Group's qualifications.

(2) *Management selection.* The initial board of directors must select competent Officers before the NCUA grants an NCUA permitted payment stablecoin license. Early selection of Officers, especially the chief executive officer, contributes favorably to the preparation and review of a business plan that is accurate, complete, and appropriate for the activities the proposed permitted payment stablecoin issuer intends to engage in, and is necessary for a substantially complete application.

(3) *Financial resources.*

(i) Each member of the Issuing Group must have a history of responsibility, personal honesty, and integrity.

(ii) The Issuing Group must have a realistic plan to enable the Applying Issuer to obtain capital and liquidity when needed.

(iii) Any financial or other business arrangement, direct or indirect, between the Issuing Group or other Insiders and the Applying Issuer must be on nonpreferential terms.

(e) *Business plan—*

(1) *In general.*

(i) An Applying Issuer must submit a business plan that adequately addresses the statutory and related policy considerations set forth in paragraphs (b) and (c) of this section. The plan must reflect sound business and financial principles and demonstrate realistic assessments of risk in light of economic and competitive conditions in the market to be served and the services to be provided.

(ii) The NCUA may offset deficiencies in one factor by strengths in one or more other factors. However, deficiencies in some factors, such as unrealistic earnings prospects, may have a negative influence on the evaluation of other factors, such as capital adequacy, or may be serious enough by themselves to result in denial. The NCUA considers inadequacies in a business plan to reflect negatively on the

Issuing Group's ability to operate a successful NCUA-Licensed Permitted Payment Stablecoin Issuer.

(2) *Earnings prospects and financial condition.* An Applying Issuer must submit balance sheets and income statements that demonstrate financial stability and earnings prospects as part of the business plan. This would include both actual and *pro forma* balance sheets and income statements, as applicable based on the availability of actual financial statements. The NCUA reviews all *pro forma* projections for reasonableness of assumptions and consistency with the business plan.

(3) *Management.*

(i) The Applying Issuer must include in the business plan information sufficient to permit the NCUA to evaluate the overall management ability of the Issuing Group. If the Issuing Group has limited relevant experience, the Officers of the Applying Issuer must be able to compensate for such deficiencies.

(ii) The Applying Issuer may not hire an Officer or elect or appoint a Director if the NCUA objects to that Person at any time prior to the date the Applying Issuer commences business.

(iii) All Issuing Group Officers, Directors, and any Principal Shareholders must also submit the Biographical and Financial Report information described in paragraph (f)(3) of this section to allow the NCUA to evaluate the competence, experience, and integrity of the Officers, Directors, and Principal Shareholders of the Applying Issuer, its subsidiaries, and Parent Company or Parent Companies as described in paragraph (b)(3).

(4) *Capital.* An Applying Issuer must have sufficient initial capital, net of any organizational expenses that will be charged to the Applying Issuer's capital after it begins operations, to support the Applying Issuer's projected volume and type of business as outlined in the business plan. An Applying Issuer also must have a longer-

term capital plan that is sufficient to support the future projected volume and type of business and is consistent with the capital requirements in subpart B of this part.

(5) *Liquidity and Reserve Asset diversification.* An Applying Issuer's business plan must address its liquidity and Reserve Asset diversification practice. Issuers must have liquidity and Reserve Asset diversification policies that meet the requirements of subpart B of this part.

(6) *Safety and soundness.* The business plan must demonstrate that the Applying Issuer is aware of, and understands, applicable laws and regulations, and how to conduct safe and sound operations and practices.

(f) *Procedures —*

(1) *Prefiling meeting.* The Issuing Group of an Applying Issuer may request a prefiling meeting with the NCUA before the Applying Issuer files an application. The prefiling meeting normally is held virtually.

(2) *Business plan.* An Applying Issuer must file a business plan that addresses the subjects discussed in paragraph (e) of this section.

(3) *Biographical and financial reports*.

(i) Each Director or Officer or proposed Director or Officer of a member of the Issuing Group or Principal Shareholder must submit to the NCUA the information prescribed in the NCUA's Biographical and Financial Report, available at *www.ncua.gov;*

(ii) Each Director or Officer or proposed Director or Officer of the Applying Issuer must submit legible fingerprints for a biometric based criminal history search; and

(iii) The NCUA may request additional information about any Director or Officer, or proposed Director or Officer, or any Principal Shareholder, if appropriate. The

NCUA may waive any of the information requirements of this paragraph if the NCUA determines that it is in the public interest.

(4) *Contact person.* The Applying Issuer must designate a contact person to represent the Issuing Group in all contacts with the NCUA.

(5) *Decision notification.* The NCUA notifies the contact person and other relevant parties in writing of its decision on an application.

(6) *Activities.* Before the NCUA grants a license to an Applying Issuer, the Applying Issuer must be established as a legal entity under State law.

§ 706.106 Timing for decision on applications

(a) *In general*. Not later than 120 days after receiving a substantially complete application for license as an NCUA-Licensed Permitted Payment Stablecoin Issuer, the NCUA will render a decision on the application. If the NCUA fails to render a decision on a complete application within this period, the application shall be deemed approved.

(b) *Substantially complete applications.*

(1) An application is considered substantially complete if the application contains sufficient information for the NCUA to render a decision on whether the Applying Issuer satisfies the factors described in 706.105.

(2) Not later than 30 days after receiving an application, the NCUA will notify the Applying Issuer as to whether the NCUA determined the application to be substantially complete and, if the application is not substantially complete, the additional information the Applying Issuer must provide for the application to be considered substantially complete.

(3) Material Change in Circumstances. An application considered substantially complete under this section will remain substantially complete unless there is a material change in circumstances that requires the NCUA to treat the application as a new application.

§ 706.107 Denial.

(a) *Grounds for denia*l.

(1) *In general*. The NCUA will only deny a substantially complete application received under this subpart if the NCUA determines that the activities of the Applying Issuer would be unsafe or unsound based on the statutory evaluation factors described in § 706.105.

(2) *Issuance on open, public, or decentralized network not grounds for denial.* The issuance of a Payment Stablecoin on an open, public, or decentralized network is not a valid ground for denial of an application received under this subpart.

(b) *Explanation required*. If the NCUA denies a substantially complete application received under this subpart, not later than 30 days after the date of such denial, the NCUA shall provide the Applying Issuer with written notice explaining the denial with specificity, including all findings made with respect to all identified material shortcomings in the application and actionable recommendations on how the Applying Issuer could address the identified material shortcomings.

§ 706.108 Opportunity for hearing; final determination.

(a) *In general*. Not later than 30 days after the date of receipt of any notice of the denial of an application under this subpart, the Applying Issuer may request, in writing, an opportunity for a written or oral hearing before the NCUA Board to appeal the denial.

(b) Timing. Upon receipt of a timely hearing request, the NCUA will notice a time not later than 30 days after the date of receipt of the request and place at which the Applying Issuer may appear, personally or through counsel, to submit written materials or provide oral testimony and oral argument.

(c) Final determination. Not later than 60 days after the date of a hearing under this section, the NCUA will notify the Applying Issuer of a final determination, which will contain a statement of the basis for that determination, with specific findings.

(d) Notice if no hearing. If an applicant does not make a timely request for a hearing under this section, the NCUA will notify the Applying Issuer, not later than 10 days after the date by which the Applying Issuer may request a hearing under this subparagraph, in writing, that the denial of the application is a final determination of the NCUA.

§ 706.109 Right to reapply

The denial of an application under this subpart does not prohibit the Applying Issuer from filing a subsequent application.

§ 706.110 Certification of anti-money laundering and economic sanctions compliance programs.

(a) *In general*. Not later than 180 days after the approval of an application, and on an annual basis thereafter, each NCUA-Licensed Permitted Payment Stablecoin Issuer must submit to the NCUA written certification that the NCUA-Licensed Permitted Payment Stablecoin Issuer has implemented anti-money laundering and economic sanctions compliance programs that are reasonably designed to prevent the NCUA-Licensed Permitted Payment Stablecoin Issuer from facilitating money laundering, in particular, facilitating money laundering for cartels and organizations designated as foreign terrorist organizations under section 219 of the Immigration and Nationality Act (8 U.S.C. 1189), and the financing of terrorist activities, consistent with the requirements of this Act.

(b) *Failure to submit certification*. The failure by an NCUA-Licensed Permitted Payment Stablecoin Issuer to submit the certification required under paragraph (a) constitutes cause for

the NCUA to revoke the approval and license of the NCUA-Licensed Permitted Payment Stablecoin Issuer.

§ 706.111 Change in Parent Company.

(a) *Change in Parent Company*. An Insured Credit Union must provide the NCUA with sixty days' prior written notice of a proposed acquisition that would cause it to become a Parent Company of an NCUA-Licensed Permitted Payment Stablecoin Issuer.

(b) *Notice.* The notice must include:

(1) Biographical and financial report information described in § 706.105(f)(3) of this part sufficient to allow the NCUA to

(i) Evaluate the competence, experience, and integrity of the proposed Parent Company's Officers and Directors related to Payment Stablecoins; and

(ii) Evaluate the record of the proposed Parent Company's Officer and Directors with compliance with laws and regulations; and

(2) A certification that the proposed Parent Company will fulfill any commitments to, any conditions imposed by, the NCUA in connection with its proposed investment.

(c) *Timing.* The Insured Credit Union may complete its proposed investment to become a Parent Company of an NCUA-Licensed Permitted Payment Stablecoin Issuer at the end of the sixty-day period unless the NCUA issues a notice disapproving the proposed acquisition.

(d) *Notice of disapproval*. The NCUA may disapprove of an insured credit union's proposed investment to become a Parent Company of an NCUA-Licensed Permitted Payment Stablecoin Issuer if it finds that the competence, experience, or integrity of the insured credit union's Officers and Directors indicates the investment would not be in the best interests of the NCUA-Licensed Permitted Payment Stablecoin Issuer or of the public.

(e) *Appeal*. Not later than 30 days after the date of receipt of the notice of disapproval, the notificant may request, in writing, an opportunity for a written or oral hearing before the NCUA to appeal the denial.

§ 706.112 Investment limitation.

An Insured Credit Union cannot invest in a Payment Stablecoin issuer unless it is an NCUA-Licensed Permitted Payment Stablecoin Issuer.

Subpart B—NCUA-Licensed Permitted Payment Stablecoin Issuers

§ 706.201 Activities.

(a) Permitted activities. An NCUA-Licensed Permitted Payment Stablecoin Issuer may only:

(1) Issue Payment Stablecoins;

(2) Redeem Payment Stablecoins;

(3) Manage reserves related to the issuance or redemption of Payment Stablecoins, including purchasing, selling, and holding Reserve Assets or providing custodial services for Reserve Assets, consistent with applicable State and Federal law;

(4) Provide custodial or safekeeping services for Payment Stablecoins, required reserves, or Private Keys of Payment Stablecoins, consistent with subpart C of this part;

(5) Assess fees associated with purchasing or redeeming Payment Stablecoins;

(6) Act as principal or agent with respect to any Payment Stablecoin;

(7) Pay fees to facilitate Customer transactions; and

(8) Undertake any other activities that directly support any of the activities described in paragraphs (a)(1) through (4) of this section.

(b) *Rule of construction*. Nothing in paragraph (a) of this section may be construed to limit the authority of an Insured Credit Union to engage in activities permissible pursuant to applicable State and Federal law.

(c) *Prohibitions*. An NCUA-Licensed Permitted Payment Stablecoin Issuer must not:

(1) Use a deceptive name by using any combination of terms relating to the United States Government, including "United States," "United States Government," and "USG," in the name of the Payment Stablecoin. This prohibition does not apply to abbreviations relating directly to the currency to which the Payment Stablecoin is pegged, such as "USD".

(2) Market a Payment Stablecoin in such a way that a reasonable person would perceive the Payment Stablecoin to be:

(i) Legal tender as described in 31 U.S.C. 5103;

(ii) Issued by the United States; or

(iii) Guaranteed or approved by the Government of the United States.

(3) Directly or through implication represent 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.

(4) Pay 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.

(i) The NCUA presumes that an NCUA-Licensed Permitted Payment Stablecoin Issuer is paying interest or yield (whether in cash, tokens, or other consideration) to the holder of a Payment Stablecoin solely in connection with the holding, use, or retention of such Payment Stablecoin if:

(A) The NCUA-Licensed Permitted Payment Stablecoin Issuer has a contract, agreement, or other arrangement with an Affiliate of the issuer or related third party to pay interest or yield to the Affiliate or related third party;

(B) The Affiliate or related third party identified in paragraph (c)(4)(i)(A) of this section 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 (whether in cash, tokens, or other consideration) to a holder of any Payment Stablecoin issued by the NCUA-Licensed Permitted Payment Stablecoin Issuer solely in connection with the holding, use, or retention of such Payment Stablecoin; and

(C) To the extent the Person, or an Affiliate of the Person, identified in paragraph (c)(4)(i)(A) is a related third party of the NCUA-Licensed Permitted Payment Stablecoin Issuer because the NCUA-Licensed Permitted Payment Stablecoin Issuer issues Payment Stablecoins on the related third party's behalf or under the related third party's branding, the arrangement identified in paragraph (c)(4)(i)(B) of this section considers the holder of the Payment Stablecoin to be the holder of a Payment Stablecoin issued by the NCUA-Licensed Permitted Payment Stablecoin Issuer on the related third party's behalf or under the related third party's branding.

(ii) For purposes of paragraph (c)(4)(i) of this section, a related third party means:

(A) A Person offering to pay interest or yield to Payment Stablecoin holders as a service; and

(B) Any Person that the issuer issues Payment Stablecoins on the Person's behalf or under the Person's branding.

(iii) An NCUA-Licensed Permitted Payment Stablecoin Issuer may rebut the presumption in paragraph (c)(4)(i) of this section by submitting written materials that, in the NCUA's judgment, demonstrate that the contract, agreement, or other arrangement is not prohibited under paragraph (c)(4) of this section and is not an attempt to evade the prohibition.

(5) Pledge, rehypothecate, or reuse any Reserve Assets required under § 706.202 either directly or indirectly (e.g., through a third-party custodian of the Reserve Assets) except for the purpose of:

(i) Satisfying margin obligations in connection with investments in permitted reserves under § 706.202(b)(4) or (5);

(ii) Satisfying obligations associated with the use, receipt, or provision of standard custodial services; or

(iii) Creating liquidity to meet reasonable expectations of requests to redeem Payment Stablecoins, 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, provided that either:

(A) The repurchase agreements are cleared by a clearing agency registered with the Securities and Exchange Commission; or

(B) The NCUA-Licensed Permitted Payment Stablecoin Issuer receives prior approval from the NCUA. All repurchase agreements under this paragraph (c)(5) wherein the Treasury bills that are sold as purchased securities have a maturity of 93 days or less are approved by the NCUA.

(6) Engage in any activity that the NCUA determines is an evasion of the requirements of section 4 of the GENIUS Act (12 U.S.C. 5903) or this part.

(7) Provide a Customer credit, directly or indirectly, to enable the Customer to purchase or otherwise acquire Payment Stablecoins from the NCUA-Licensed Permitted Payment Stablecoin Issuer.

§ 706.202 Reserve Assets.

(a) *Reserve requirement*. An NCUA-Licensed Permitted Payment Stablecoin Issuer must:

(1) Maintain Reserve Assets that:

(i) Are identifiable;

(ii) Are segregated from and not commingled with other assets owned or held by the NCUA-Licensed Permitted Payment Stablecoin Issuer;

(iii) At all times have a total Fair Value that equals or exceeds the Outstanding Issuance Value of the NCUA-Licensed Permitted Payment Stablecoin Issuer; and

(iv) Are either held directly by the NCUA-Licensed Permitted Payment Stablecoin Issuer or within the custody of an Eligible Financial Institution.

(2) Demonstrate the operational capability to access and monetize the identifiable Reserve Assets, commensurate with the NCUA-Licensed Permitted Payment Stablecoin Issuer's risk profile and business model.

(3) Only withdraw any surplus Reserve Assets in excess of Outstanding Issuance Value once per month, upon the publication of the composition report required by paragraph (e) of this section. An NCUA-Licensed Permitted Payment Stablecoin Issuer may withdraw any surplus Reserve Assets, calculated and reported as of the last day of the previous month, after the information in the month-end report is examined and certified pursuant to paragraph (f) of this section, provided that an NCUA-Licensed Permitted Payment Stablecoin Issuer may not withdraw any Reserve Assets if the withdrawal would cause the current Fair Value of Reserve Assets to fall below the current Outstanding Issuance Value, calculated as of the day of withdrawal.

(b) *Composition*. The Reserve Assets required under paragraph (a) of this section must comprise exclusively:

(1) United States coins and currency (including Federal Reserve notes) or money standing to the credit of an account with a Federal Reserve Bank;

(2) Funds held as deposits or in Share Accounts that are payable upon demand at an Insured Depository Institution (including any foreign branches or agents, including correspondent banks, of an insured depository institution), subject to any limitation

established by the FDIC and the NCUA, as applicable, pursuant to section 4(a)(1)(A)(ii) of the GENIUS Act (12 U.S.C. 5903(a)(1)(A)(ii)) to address safety and soundness risks of such insured depository institution;

(3) Treasury bills, Treasury notes, or Treasury bonds with a remaining maturity of 93 days or less;

(4) Money received under repurchase agreements, with the NCUA-Licensed Permitted Payment Stablecoin Issuer acting as a seller of securities and with a no longer than overnight maturity, that are backed by Treasury bills with a maturity of 93 days or less;

(5) Reverse repurchase agreements, with the NCUA-Licensed Permitted Payment Stablecoin Issuer acting as a purchaser of securities and with a no longer than overnight maturity, that are collateralized by Treasury bills, Treasury notes, Treasury bonds on a no longer than overnight basis, subject to overcollateralization in line with standard market terms, that are:

(i) Tri-party;

(ii) Centrally cleared through a clearing agency registered with the Securities and Exchange Commission; or

(iii) Bilateral with a counterparty that the issuer has determined to be adequately creditworthy even in the event of severe market stress;

(6) Securities issued by an investment company registered under section 8(a) of the Investment Company Act of 1940 (15 U.S.C. 80a-8(a)), or other registered Government money market fund, and that are invested solely in underlying assets described in paragraphs (b)(1) through (5) of this section;

(7) Any other similarly liquid Federal Government-issued asset approved by the NCUA. In determining whether a potential Reserve Asset qualifies as “any other similarly liquid Federal Government-issued asset,” the NCUA will consider, among other relevant factors, whether:

(i) The asset has liquidity characteristics, including during times of stress, comparable to the other Reserve Assets allowed under this paragraph (b);

(ii) NCUA-Licensed Permitted Payment Stablecoin Issuers will be operationally capable of monetizing the asset to meet redemption requests, including sudden and high-volume requests;

(iii) The asset poses levels of risk comparable to those of the assets allowed under this paragraph (b) including interest rate risk and counterparty credit risk; and

(iv) Whether the asset introduces additional risks that may be difficult for NCUA-Licensed Permitted Payment Stablecoin Issuers to manage; or

(8) Any reserve described in paragraphs (b)(1) through (3) or paragraph (b)(6) or (7) of this section in tokenized form, provided that such reserves comply with all applicable laws and regulations.

Option A for Paragraph (c)

(c) *Asset diversification and concentration*.

(1) An NCUA-Licensed Permitted Payment Stablecoin Issuer must maintain Reserve Assets that are sufficiently diverse to manage potential credit, liquidity, interest rate, and price risks. An NCUA-Licensed Permitted Payment Stablecoin Issuer must measure and manage the risk that concentrating Reserve Assets at one Eligible Financial Institution or a small number of Eligible Financial Institutions may impair the ability of an NCUA-Licensed Permitted Payment Stablecoin Issuer to satisfy redemption demands if individual Eligible Financial Institutions are unable to return, or if there is a delay in returning, Reserve Assets placed by an NCUA-Licensed Permitted Payment Stablecoin Issuer.

(2) An NCUA-Licensed Permitted Payment Stablecoin Issuer will be deemed to satisfy the requirements of paragraph (c)(1) of this section if on each business day:

(i) The NCUA-Licensed Permitted Payment Stablecoin Issuer maintains at least 10 percent of its Reserve Assets as deposits or funds in Share Accounts that are payable upon demand or Money standing to the credit of an account with a Federal Reserve Bank;

(ii) The NCUA-Licensed Permitted Payment Stablecoin Issuer maintains at least 30 percent of its Reserve Assets as deposits or funds in Share Accounts that are payable upon demand, Money standing to the credit of an account with a Federal Reserve Bank, or amounts receivable and due unconditionally within five business days on pending sales of Reserve Assets, maturing Reserve Assets, or other maturing transactions;

(iii) The NCUA-Licensed Permitted Payment Stablecoin Issuer maintains no more than 40 percent of its Reserve Assets at any one Eligible Financial Institution, whether as deposits or funds in Share Accounts at any one Insured Depository Institution, securities custodied at any one Eligible Financial Institution, bilateral reverse repurchase agreements with any counterparty, or through other exposures;

(iv) The NCUA-Licensed Permitted Payment Stablecoin Issuer maintains no more than 50 percent of the amount required in paragraph (c)(2)(i) of this section at any one Eligible Financial Institution; and

(v) The NCUA-Licensed Permitted Payment Stablecoin Issuer's total stock of Reserve Assets have a weighted average maturity of no more than 20 days.

Option B for paragraph (c)

(c) *Asset diversification and concentration.* An NCUA-Licensed Permitted Payment Stablecoin Issuer must on each business day:

(1) Maintain at least 10 percent of its Reserve Assets as deposits or funds in Share Accounts that are payable upon demand or Money standing to the credit of an account with a Federal Reserve Bank;

(2) Maintain at least 30 percent of its Reserve Assets as deposits or funds in Share Accounts that are payable upon demand, Money standing to the credit of an account with a Federal Reserve Bank, or amounts receivable and due unconditionally within five business days on pending sales of Reserve Assets, maturing Reserve Assets, or other maturing transactions;

(3) Maintain no more than 40 percent of its Reserve Assets at any one Eligible Financial Institution, whether as deposits or funds in Share Accounts at any one Insured Depository Institution, securities custodied at any one Eligible Financial Institution, bilateral reverse repurchase agreements with any counterparty, or through other exposures;

(4) Maintain no more than 50 percent of the amount required in paragraph (c)(1) of this section at any one Eligible Financial Institution; and

(5) Maintain Reserve Assets with a weighted average maturity of no more than 20 days.

(d) *Minimum insured amount.* An NCUA-Licensed Permitted Payment Stablecoin Issuer with an Outstanding Issuance Value of $25 billion or more must, on each business day, maintain at least 0.5 percent of its Reserve Assets, up to a cap of $500 million, in the form of deposits or funds in Share Accounts at Insured Depository Institutions that are fully insured by the FDIC and/or NCUA.

(e) *Composition report.* By noon on the last day of each month, an NCUA-Licensed Permitted Payment Stablecoin Issuer must publish the monthly composition of the issuer's Reserve Assets as of the last day of the previous month on the website of the issuer, using a format substantially similar to the template provided in table 1 to this paragraph (e), containing:

(1) The total number of outstanding Payment Stablecoins issued by the issuer; and

(2) The amount and composition of the reserves described in paragraph (a) of this section, including the average tenor and geographic location of custody of each category of reserve instruments.

Table 1 to Paragraph (e) – Monthly Composition Template

	As of YY/YY/YYYY **In thousands of U.S. Dollars**	**Amount**	**Geographic location**	**Average Tenor**
Number of Outstanding Payment Stablecoins				
1[1]				
2				
3				
4	**TOTAL OUTSTANDING PAYMENT STABLECOINS**			
Fair Value of Reserve Assets				
5	Deposits or funds in Share Accounts:			
6	Insured deposits or insured funds in Share Accounts			
7	Uninsured deposits or uninsured funds in Share Accounts			
8	Treasury bills, Treasury notes, or Treasury bonds			
9	Other similarly liquid Federal Government-issued assets approved by NCUA			
10	Money received under repurchase agreements			
11	Reverse repurchase agreements			

12	Securities issued by an investment company solely invested in qualifying reserve assets			
13	Reserves in tokenized form[2]			
14	**Total Reserve Assets[3]**			
15	Outstanding repurchase agreement liabilities			
16	**Total Reserve Assets net of Outstanding Repurchase Agreement Liabilities**			

[1]List different classes of Payment Stablecoin separately, if applicable. To the extent that different classes of Payment Stablecoins are secured by distinct pools of reserve assets, NCUA-Licensed Permitted Payment Stablecoin Issuers should publish a composition table for each class of Payment Stablecoin and describe the legal mechanism for how the assets are separately secured.

[2]NCUA-Licensed Permitted Payment Stablecoin Issuers must separately list any reserves in tokenized form by category of reserve asset, using multiple rows if appropriate.

[3]Do not double count any reserve assets that may be listed in more than one row for purposes of computing the total.

(f) *Monthly certification; examination of reports by Registered Public Accounting Firm*.

(1) By noon on the last day of each month, an NCUA-Licensed Permitted Payment Stablecoin Issuer must have the information disclosed in the previous month-end report required under paragraph (e) of this section examined by a Registered Public Accounting Firm. The Registered Public Accounting Firm's examination report must be published on the website of the issuer at the same time as the month-end report required under paragraph (e).

(2) Each month, the Chief Executive Officer and Chief Financial Officer (or the Persons performing the equivalent functions) of an NCUA-Licensed Permitted Payment Stablecoin Issuer must submit a certification as to the accuracy of the monthly report required under paragraph (e) of this section to the NCUA.

(g) *Failure to meet minimum Reserve Assets requirement.*

(1) An NCUA-Licensed Permitted Payment Stablecoin Issuer must notify the NCUA on any day in which its Reserve Asset amount has fallen below the required minimum in paragraph (a) of this section.

(2) An NCUA-Licensed Permitted Payment Stablecoin Issuer that fails to satisfy the minimum Reserve Asset requirement in paragraph (a) of this section at any time:

(i) Is prohibited from issuing any new Payment Stablecoins immediately except as necessary to facilitate a transfer of Payment Stablecoins from one Distributed Ledger to another and provided that the net Outstanding Issuance Value does not increase; and

(ii) May not resume issuance until the NCUA-Licensed Permitted Payment Stablecoin Issuer satisfies its minimum Reserve Asset requirement.

(3) If an NCUA-Licensed Permitted Payment Stablecoin Issuer fails to meet its minimum Reserve Asset requirement for 15 consecutive business days (which may be extended in the NCUA's sole discretion), it must:

(i) Begin liquidation of Reserve Assets and redemption of outstanding Payment Stablecoins, consistent with § 706.203; and

(ii) Not charge Customers a fee to redeem their Payment Stablecoins at any time during the liquidation.

(4) If at any point the NCUA determines that an NCUA-Licensed Permitted Payment Stablecoin Issuer has not demonstrated that it meets the Reserve Asset requirements in paragraph (a), (b), (c), or (d) of this section, the NCUA may require the issuer to submit a

plan describing how the NCUA-Licensed Permitted Payment Stablecoin Issuer will attain compliance and the timeline for the plan. If the NCUA determines, either before or after the submission of a plan, that an NCUA-Licensed Permitted Payment Stablecoin Issuer faces a significant risk of being unable to attain compliance with the reserve requirements in paragraph (a), (b), (c), or (d) within a reasonable period, the NCUA may order the issuer to initiate redemption of all outstanding Payment Stablecoins. The NCUA's authority to require a compliance plan or order redemption does not limit the NCUA's authority to pursue other measures, including enforcement actions, if appropriate.

§ 706.203 Redemption.

(a) *Redemption policy*. An NCUA-Licensed Permitted Payment Stablecoin Issuer must publicly disclose its current redemption policy and include, at a minimum, the following information:

(1) The timeframe in which the issuer will redeem Payment Stablecoins and the timeframe under which the issuer is required to redeem Payment Stablecoins under paragraph (b)(1)(i) of this section;

(2) A statement explaining the limitation in paragraph (b)(1)(ii) of this section;

(3) A statement explaining the scenarios under which the redemption period may be extended as described in paragraph (c) of this section;

(4) A statement with clear instructions on how a Payment Stablecoin holder can redeem a Payment Stablecoin, including a link to the website(s) where a Customer can redeem the Payment Stablecoin; and

(5) The minimum number of Payment Stablecoins, if any, that the NCUA-Licensed Permitted Payment Stablecoin Issuer will redeem, provided that the issuer must redeem any number greater than or equal to one Payment Stablecoin, subject to appropriate Customer screening and onboarding.

(b) *Redemption policy requirements*. An NCUA-Licensed Permitted Payment Stablecoin Issuer's redemption policy must provide:

(1) Clear and conspicuous procedures for timely redemption of outstanding Payment Stablecoins:

(i) That timely redemption may not exceed two business days following the date of the requested redemption; and

(ii) That any discretionary limitations on timely redemptions can only be imposed by the NCUA.

(2) [Reserved]

(c) *Timeliness extended in certain scenarios*.

(1) If an NCUA-Licensed Permitted Payment Stablecoin Issuer faces redemption demands in excess of 10 percent of its Outstanding Issuance Value in a single 24-hour period, the period for timely redemption described in paragraph (b)(1) of this section is immediately extended to seven calendar days by operation of this paragraph (c)(1).

(2) The extended redemption period in paragraph (c)(1) of this section applies to all redemption requests that are outstanding at the time the 10 percent threshold is met as well as any subsequent redemption requests.

(3) An NCUA-Licensed Permitted Payment Stablecoin Issuer may only redeem any of the outstanding or subsequent redemption requests described in paragraph (c)(2) of this section prior to the seven-calendar day period if the NCUA determines that the issuer has the ability to redeem sooner in an orderly fashion and through a fair and transparent process or the NCUA otherwise provides notice to the NCUA-Licensed Permitted Payment Stablecoin Issuer that the extended redemption period no longer applies.

(4) An NCUA-Licensed Permitted Payment Stablecoin Issuer must provide notice to the NCUA within 24 hours if its redemption requests exceed 10 percent of its Outstanding Issuance Value in a single 24-hour period.

(5) The NCUA may also, in its discretion, extend timely redemption described in paragraph (b)(1) or (c)(1) of this section, as applicable, if the NCUA determines that the

NCUA-Licensed Permitted Payment Stablecoin Issuer poses a threat to safety and soundness, financial stability, or such an extension is otherwise in the public interest.

(d) *Disclosures and fees associated with purchase and redemption*. An NCUA-Licensed Permitted Payment Stablecoin Issuer must:

(1) Publicly, clearly, and conspicuously disclose in plain language and in a format that is readily noticeable to Customers, readily understandable by Customers, and segregated from other information:

(i) The name of the NCUA-Licensed Permitted Payment Stablecoin Issuer that issues the Payment Stablecoin;

(ii) That the NCUA-Licensed Permitted Payment Stablecoin Issuer is the entity that is obligated to convert, redeem, or repurchase the Payment Stablecoin for a fixed amount of Monetary Value;

(iii) The link to the monthly composition report of the relevant NCUA-Licensed Permitted Payment Stablecoin Issuer's reserves required under § 706.202(e); and

(iv) All fees associated with purchasing or redeeming Payment Stablecoins.

(2) Update the disclosures in paragraph (d)(1)(iv) of this section if there are any changes in fees associated with purchasing or redeeming Payment Stablecoins and provide Customers at least seven calendar days' prior notice of the change, including by securely delivering the notice to current Customers;

(3) Publish the disclosures in paragraph (d)(1) of this section and any updates made in accordance with paragraph (d)(2) of this section on the NCUA-Licensed Permitted Payment Stablecoin Issuer's website; and

(4) Include the disclosures in paragraph (d)(1) of this section and any updates made in accordance with paragraph (d)(2) of this section in any Customer agreements that it provides.

§ 706.204 Risk management.

(a) *General operational and managerial standards—*

(1) *Internal controls and information systems*. An NCUA-Licensed Permitted Payment Stablecoin Issuer must have internal controls and information systems to support effective risk management that are appropriate for the size and complexity of the NCUA-Licensed Permitted Payment Stablecoin Issuer and the nature, scope, and risk of its activities and that provide for:

(i) An organizational structure with appropriate segregation of duties and an internal control structure that establishes clear lines of authority and responsibility for monitoring adherence to established policies;

(ii) Effective risk assessment;

(iii) Timely and accurate financial, operational, and regulatory reporting, including with respect to the reports required under this part;

(iv) Adequate procedures to monitor, safeguard, manage, control, and monetize assets, including Reserve Assets; and

(v) Compliance with applicable laws and regulations.

(2) *Internal audit system*. An NCUA-Licensed Permitted Payment Stablecoin Issuer must have an internal audit system that is appropriate to the size and complexity of the NCUA-Licensed Permitted Payment Stablecoin Issuer and the nature, scope, and risk of its activities and that provides for:

(i) Adequate monitoring of the system of internal controls through an internal audit function, or for an NCUA-Licensed Permitted Payment Stablecoin Issuer whose size, complexity or scope of operations does not warrant a full-scale internal audit function, a system of independent reviews of key internal controls;

(ii) Independence and objectivity;

(iii) Qualified Persons responsible for the audit function;

(iv) Adequate independent testing and review of internal controls and information systems, verification of published information available to Customers, calculations for required reserves, and regulatory filings;

(v) Adequate documentation of tests and findings and any corrective actions;

(vi) Verification and review of management actions to address deficiencies; and

(vii) Review by the NCUA-Licensed Permitted Payment Stablecoin Issuer's audit committee or board of Directors of the effectiveness of the internal audit systems.

(3) *Interest rate exposure*. An NCUA-Licensed Permitted Payment Stablecoin Issuer must:

(i) Manage interest rate risk in a manner that is appropriate to the size and complexity of the NCUA-Licensed Permitted Payment Stablecoin Issuer and the complexity of its assets and liabilities; and

(ii) Provide for periodic reporting to the NCUA-Licensed Permitted Payment Stablecoin Issuer's management and board of Directors regarding interest rate risk with adequate information for management and the board of Directors to assess the level of risk.

(4) *Asset growth*. An NCUA-Licensed Permitted Payment Stablecoin Issuer's asset growth must be prudent and commensurate with an NCUA-Licensed Permitted Payment Stablecoin Issuer's risk management capabilities, operational capacity, and staffing.

(5) *Earnings*. An NCUA-Licensed Permitted Payment Stablecoin Issuer must establish and maintain a system that is commensurate with the NCUA-Licensed Permitted Payment Stablecoin Issuer's size and complexity and the nature and scope of its operations to evaluate and monitor earnings and ensure that earnings are sufficient to support operations and maintain the capital levels required by subpart D of this part.

(6) *Insider and Affiliate transactions*.

(i) An NCUA-Licensed Permitted Payment Stablecoin Issuer must ensure that transactions between the NCUA-Licensed Permitted Payment Stablecoin Issuer and Insiders or Affiliates:

(A) Are not excessive and do not pose significant risks of material financial loss;

(B)

(1) Are conducted on terms that are the same or at least as favorable to the NCUA-Licensed Permitted Payment Stablecoin Issuer as those prevailing at the time for comparable transactions with or involving non-Insiders or non-Affiliates; or

(2) In the absence of comparable transactions, are offered on terms and under circumstances that, in good faith would be offered to, or would apply to non-Affiliates or non-Insiders; and

(C) Are appropriately documented and reviewed by the NCUA-Licensed Permitted Payment Stablecoin Issuer's board of Directors.

(ii) An NCUA-Licensed Permitted Payment Stablecoin Issuer must appropriately monitor and validate compliance with the requirements of paragraph (a)(6)(i) of this section.

(7) *Oversee service provider arrangements*. An NCUA-Licensed Permitted Payment Stablecoin Issuer must:

(i) Exercise appropriate due diligence in selecting its service providers;

(ii) Require its service providers by contract to implement appropriate measures designed to meet the applicable requirements of this part; and

(iii) As appropriate, monitor its service providers to confirm they have satisfied their obligations under this section. As part of this monitoring, NCUA-Licensed

Permitted Payment Stablecoin Issuers must review audits, summaries of test results, or other equivalent evaluations of its service providers.

(8) *Liquidity, diversification, and concentration*. An NCUA-Licensed Permitted Payment Stablecoin Issuer must:

(i) Appropriately monitor and validate compliance with the requirements of § 706.202; and

(ii) Manage liquidity and concentration risk in a manner that is appropriate to the business model and risk profile of the NCUA-Licensed Permitted Payment Stablecoin Issuer.

(b) *Information technology and security—*

(1) *Information technology and security program*. An NCUA-Licensed Permitted Payment Stablecoin Issuer must implement a comprehensive written information security risk and control framework, including a program that assesses and manages information technology and information security risks.

(2) *Board of Directors approval*. The NCUA-Licensed Permitted Payment Stablecoin Issuer's board of Directors or an appropriate board committee must approve the information technology and security program described in paragraph (b)(1) of this section and oversee the development, implementation, and maintenance of the program, including the appointment of a qualified Information Technology and Security Officer. Such oversight includes assigning specific responsibility for program implementation and review of program-related reports.

(3) *Required elements of program*. An NCUA-Licensed Permitted Payment Stablecoin Issuer's information technology and security program must include:

(i) An inventory and classification of assets, processes, and sensitivity of data;

(ii) Controls supporting and safeguarding sensitive information and processes;

(iii) Evaluation, validation, and reporting processes to ensure that key information technology systems and controls, including smart contracts, are operating as intended;

(iv) Periodic independent testing; and

(v) A comprehensive and effective incident identification and assessment process and incident response program.

(4) *Security of Customer information*. An NCUA-Licensed Permitted Payment Stablecoin Issuer's information technology and security program must include administrative, technical, and physical safeguards designed to:

(i) Ensure the security and confidentiality of records containing Nonpublic Personal Information about a Customer;

(ii) Protect against any anticipated threats or hazards to the security or integrity of such records;

(iii) Protect against unauthorized access to or use of such records that could result in substantial harm or inconvenience to any Customer; and

(iv) Ensure the proper disposal of such records.

(5) *Safe handling of Digital Assets*. An NCUA-Licensed Permitted Payment Stablecoin Issuer must develop, implement, and maintain appropriate measures to ensure secure handling of Digital Assets, including Private Key management, backup, and recovery incorporating:

(i) Relevant technical, operational, strategic, market, legal, and compliance considerations relating to each Digital Asset and its underlying Digital Ledger; and

(ii) Material developments specifically related to supported Digital Assets and their underlying Digital Ledgers.

(6) *Adjust the program*. An NCUA-Licensed Permitted Payment Stablecoin Issuer must monitor, evaluate, and adjust, as appropriate, the information technology and security program in light of any relevant changes in technology, the sensitivity of its Customer information, internal or external threats, and the NCUA-Licensed Permitted Payment Stablecoin Issuer's own changing business arrangements, such as mergers and acquisitions, alliances and joint ventures, third-party arrangements, and changes to applicable information systems.

(7) *Notification of unauthorized access—*

(i) *Notification to Customers*. When an NCUA-Licensed Permitted Payment Stablecoin Issuer becomes aware of an incident of unauthorized access to sensitive Customer information, including a Customer's Private Key, the NCUA-Licensed Permitted Payment Stablecoin Issuer must conduct a reasonable investigation to promptly determine the likelihood that the information has been or will be misused. If the NCUA-Licensed Permitted Payment Stablecoin Issuer determines that misuse of its information about a Customer has occurred or is reasonably possible, it must notify the affected or possibly affected Customer and the NCUA as soon as possible. Customer notice must be delayed if an appropriate law enforcement agency determines that notification will interfere with a criminal investigation and provides the NCUA-Licensed Permitted Payment Stablecoin Issuer with a written request for the delay. The NCUA-Licensed Permitted Payment Stablecoin Issuer must notify its Customers of the misuse or possible misuse of Customer information as soon as law enforcement notifies the NCUA-Licensed Permitted Payment Stablecoin Issuer that notification will no longer interfere with the investigation.

(ii) *Notification to group of Customers*. If an NCUA-Licensed Permitted Payment Stablecoin Issuer determines that a group of files has been accessed improperly

but is unable to identify which specific Customers' information has been accessed and the circumstances of the unauthorized access lead the NCUA-Licensed Permitted Payment Stablecoin Issuer to determine that misuse of the information is reasonably possible, it must notify all Customers in the group.

(8) *Information technology resilience*. An NCUA-Licensed Permitted Payment Stablecoin Issuer's information technology and security program must include measures to ensure continuity of operations and recovery of critical functions in the face of disruptions, including by business impact analyses, testing of vulnerabilities, and testing with critical service providers.

(c) In order to ensure compliance with Bank Secrecy Act and economic sanctions requirements, each NCUA-Licensed Permitted Payment Stablecoin Issuer must comply with the Bank Secrecy Act, sections 4(a)(5) and 4(a)(6) of the GENIUS Act (12 U.S.C. 5903(a)(5) and (6), and applicable regulations at 31 CFR Chapter V and 31 CFR Chapter X, including any Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT) program, economic sanctions program, and reporting requirements. Subpart E of this part provides the NCUA's supervision and enforcement policy for AML/CFT program requirements for NCUA-Licensed Permitted Payment Stablecoin Issuers.

§ 706.205 Audits, reports, and supervision.

(a) *General*. The NCUA will conduct a full-scope examination of every NCUA-Licensed Permitted Payment Stablecoin Issuer subject to its supervision at least once during each 12-month period, unless otherwise specified in paragraph (d) of this section.

(b) *Access to books and records*. Upon request by the NCUA, NCUA-Licensed Permitted Payment Stablecoin Issuers must grant the NCUA prompt and complete access to all Officers, Directors, employees, agents, and relevant books, records, or documents of any type.

(c) *Location of examinations*. The NCUA may conduct examinations of every NCUA-Licensed Permitted Payment Stablecoin Issuer subject to its supervision, as specified in paragraph (a) of this section, on-site, remotely, or in some combination.

(d) *Extended exam cycle for certain issuers*. Notwithstanding paragraph (a) of this section, the NCUA may conduct a full-scope examination of an NCUA-Licensed Permitted Payment Stablecoin Issuer subject to its supervision at least once during each 14- to 24-month period, as determined by the NCUA in its sole discretion, if the following conditions are satisfied:

(1) The NCUA-Licensed Permitted Payment Stablecoin Issuer currently is not subject to a formal enforcement proceeding or order;

(2) No Person became a Parent Company or acquired Control, as specified in §§ 706.111 and 706.205(m) of this part, of the NCUA-Licensed Permitted Payment Stablecoin Issuer during the preceding 12-month period in which a full-scope examination would have been required but for this paragraph (d);

(3) The NCUA-Licensed Permitted Payment Stablecoin Issuer has an Outstanding Issuance Value of less than $1 billion or less than $25 billion in total monthly Trading Volume; and

(4) The NCUA-Licensed Permitted Payment Stablecoin Issuer is in compliance with all of the reserve requirements set forth in § 706.202 and the reporting requirements of this section.

(e) *Authority to conduct more frequent examinations.* This section does not limit the authority of the NCUA to examine any NCUA-Licensed Permitted Payment Stablecoin Issuer as frequently as the NCUA deems necessary, including examinations of a limited scope.

(f) *Recordkeeping requirements*. All NCUA-Licensed Permitted Payment Stablecoin Issuers must maintain a complete set of books and records in English and in accordance with GAAP.

(g) *Records retention policy*. All NCUA-Licensed Permitted Payment Stablecoin Issuers must develop and implement a records retention policy that ensures the NCUA-Licensed Permitted

Payment Stablecoin Issuer can demonstrate compliance with the GENIUS Act, this part, and all applicable laws and regulations.

(h) *Confidential weekly reporting*. All NCUA-Licensed Permitted Payment Stablecoin Issuers must submit to the NCUA, on a weekly basis, in the manner and form specified by the NCUA, a confidential report containing the information requested in the form available at www.ncua.gov.

(i) *Reports of financial condition*. All NCUA-Licensed Permitted Payment Stablecoin Issuers must submit to the NCUA a quarterly report on the financial condition of the NCUA-Licensed Permitted Payment Stablecoin Issuer, including, but not limited to, income statement, expenses, balance sheet, reserves, changes in equity, investments, capital, outstanding issuance value, and assets under custody, in a standardized format as prescribed by the NCUA within 30 days of the end of the prior quarter. Forms and instructions are available at www.ncua.gov. Each report of financial condition must contain a declaration by the NCUA-Licensed Permitted Payment Stablecoin Issuer's Chief Financial Officer, or the individual performing an equivalent function, that the report is true and correct to the best of their knowledge and belief. The correctness of the report of financial condition must be attested to by the signatures of the Directors and senior management of the NCUA-Licensed Permitted Payment Stablecoin Issuer other than the Officer, or the individual performing an equivalent function, making such declaration, with the attestation stating that the report has been examined by them and to the best of their knowledge and belief is true and correct.

(j) *Submission of other reports*. All NCUA-Licensed Permitted Payment Stablecoin Issuers must, upon request, submit to the NCUA a report on:

(1) The financial condition of the NCUA-Licensed Permitted Payment Stablecoin Issuer;

(2) The systems of the NCUA-Licensed Permitted Payment Stablecoin Issuer for monitoring and controlling financial and operational risks;

(3) Compliance of the NCUA-Licensed Permitted Payment Stablecoin Issuer and any subsidiary thereof with the GENIUS Act, and this part; and

(4) Compliance of the NCUA-Licensed Permitted Payment Stablecoin Issuer with the requirements of the Bank Secrecy Act and with laws authorizing the imposition of sanctions and implemented by the Secretary of the Treasury.

(k) *Ongoing compliance reporting*. Not later than 180 days after the approval of an application under subpart A, and on an annual basis thereafter, an NCUA-Licensed Permitted Payment Stablecoin Issuer must submit to the NCUA a certification by its board of Directors that the NCUA-Licensed Permitted Payment Stablecoin Issuer has implemented anti-money laundering and economic sanctions compliance programs that are reasonably designed to prevent the NCUA-Licensed Permitted Payment Stablecoin Issuer from facilitating money laundering, in particular, facilitating money laundering for cartels and organizations designated as foreign terrorist organizations under section 219 of the Immigration and Nationality Act (8 U.S.C. 1189) and the financing of terrorist activities, consistent with the requirements of the GENIUS Act.

(l) *Audits*. An NCUA-Licensed Permitted Payment Stablecoin Issuer with more than $50 billion in Outstanding Issuance Value that is not subject to the reporting requirements under section 13(a) or 15(d) of the Securities and Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)) must prepare in accordance with GAAP an annual financial statement that must include the disclosure of any related party transactions, as defined by GAAP.

(1) A Registered Public Accounting Firm must perform an audit of the financial statements described in this paragraph (l). The audit must be conducted in accordance with all applicable auditing standards established by the Public Company Accounting Oversight Board, including those relating to auditor independence, internal controls, and related party transactions.

(2) An NCUA-Licensed Permitted Payment Stablecoin Issuer required to prepare an audited annual financial statement under this paragraph (l) must:

(i) Make the audited financial statements publicly available on the NCUA-Licensed Permitted Payment Stablecoin Issuer's website; and

(ii) Submit the audited financial statements annually, within 120 days after the end of its fiscal year, to the NCUA.

(iii) If an NCUA-Licensed Permitted Payment Stablecoin Issuer is unable to timely file all or any portion of the financial statement described in paragraph (l)(2)(ii) of this section, it must submit a written notice of late filing to the NCUA. The notice must:

(A) Disclose the NCUA-Licensed Permitted Payment Stablecoin Issuer's inability to timely file all, or specified portions, of its annual financial statement and the reasons therefore in reasonable detail;

(B) Include the date by which the financial statement will be filed; and

(C) Be filed on or before the deadline for filing the financial statement.

(m) *Changes in Control*. A Person seeking to acquire Control of an NCUA-Licensed Permitted Payment Stablecoin Issuer must follow the requirements of § 706.111 as though that Person were a Parent Company.

(n) *Use of existing reports*. In supervising and examining an NCUA-Licensed Permitted Payment Stablecoin Issuer, the NCUA will, to the fullest extent possible, use existing reports and other supervisory information.

(o) *Avoidance of duplication*. The NCUA will, to the fullest extent possible, avoid duplication of examination activities, reporting requirements, and requests for information.

Subpart C—Custody

§ 706.301 Definitions.

For the purposes of this subpart, the following definitions apply:

Applicable Law means the law of a State or other jurisdiction governing a Covered Custodian's custody relationships, any applicable Federal law governing those relationships, the terms of the Custody Agreement, and any applicable court order.

Covered Assets means Payment Stablecoin reserves, Payment Stablecoins used as collateral, and Private Keys used to issue Payment Stablecoins, as well as cash and other property received in the course of the provision of custodial or safekeeping services for such assets.

Covered Custodian means an Insured Credit Union or NCUA-Licensed Permitted Payment Stablecoin Issuer to the extent of such Person's provision of custodial or safekeeping services for Covered Assets.

Covered Customer means a Person for or on whose behalf a Covered Custodian receives, acquires, or holds Covered Assets.

Custody Agreement means a legally binding contractual agreement between a Covered Customer, as the principal, and the Covered Custodian, as the agent, that establishes the Covered Custodian's duties and responsibilities in providing safekeeping and ancillary services to the Covered Customer.

Digital Wallet means a software program or hardware device that stores and manages the Private Keys associated with a particular unit of a Digital Asset.

Sub-Custodian means a Person that provides custody and safekeeping services to a Covered Custodian, including through a Digital Wallet for which such Person controls the associated Private Keys, with respect to Covered Assets of a Covered Customer, for which the Covered Custodian otherwise serves as a custodian under this subpart. A sub-custodian is subject to the requirements applicable to a custodian under the GENIUS Act, including the requirements of section 10 of the Act (12 U.S.C. 5909).

§ 706.302 Covered Asset custodial property requirements.

(a) *Separate accounting, treatment, and dealing*. A Covered Custodian must separately account for the Covered Assets of a Covered Customer and must treat and deal with those Covered Assets as belonging to such Covered Customer and not as the property of the Covered Custodian.

(b) *Protection, possession, and control*.

(1) A Covered Custodian must take appropriate steps to protect the Covered Assets of Covered Customers from the claims of creditors of the Covered Custodian and any Sub-Custodian, as applicable, including through adopting, implementing, and maintaining written policies, procedures, and internal controls that are adequate to comply with Applicable Law and that are commensurate with the Covered Custodian's size, complexity, and risk profile and with the nature of the applicable Covered Assets for which it provides custodial or safekeeping services.

(2)

(i) A Covered Custodian must maintain possession or control of the Covered Assets of a Covered Customer that are held directly, including in a Digital Wallet for which the Covered Custodian controls the associated Private Keys; however, a Covered Custodian may maintain the Covered Assets of a Covered Customer through the use of a Sub-Custodian if consistent with Applicable Law, provided the Covered Custodian maintains adequate safeguards and internal controls reasonably designed to provide the Covered Custodian with oversight of such Sub-Custodian's compliance with the requirements of this subpart.

(ii) With regards to any Payment Stablecoin or Payment Stablecoin reserve in the form of a tokenized asset held in safekeeping under this subpart, a Covered Custodian, or Sub-Custodian, as applicable, maintains control for purposes of paragraph (b)(2)(i) of this section if it can reasonably demonstrate, consistent with the standard of care established by applicable law, that no other party, including the Covered Customer, can transfer the Payment Stablecoin or tokenized asset using a Distributed Ledger without the consent of the Covered Custodian or Sub-Custodian, as applicable.

(c) *Withdrawals and application of Covered Assets*. Consistent with Applicable Law, a Covered Custodian may withdraw and apply such share of the Covered Assets of a Covered Customer

necessary to transfer, adjust, or settle a transaction or transfer of assets applicable to that Covered Customer, including the payment of commissions, taxes, storage, and other charges lawfully accruing in connection with the provision of services to that Covered Customer by the Covered Custodian.

(d) *Holdings of cash*. Notwithstanding any other provision of this section, an Insured Credit Union that provides custodial or safekeeping services, including as a Sub-Custodian, for Covered Assets that are in the form of cash may hold such cash in the form of a deposit or Share Account liability, provided such treatment is consistent with Federal law.

§ 706.303 Use of omnibus accounts.

(a) *Segregation of Covered Assets*. A Covered Custodian must segregate all Covered Assets of Covered Customers from and not commingle them with the assets of the Covered Custodian, except as permitted under § 706.302(d).

(b) *Commingling covered assets*. A Covered Custodian may, for convenience, commingle the Covered Assets of multiple Covered Customers, in one or more omnibus accounts to the extent that the steps it has taken pursuant to § 706.302(b) are adequate to maintain safe and sound practices for the use of omnibus accounts, and to the extent that the use of omnibus accounts is consistent with Applicable Law.

§ 706.304 Self-custody hardware and software exclusion.

The requirements of this subpart do not apply to any Insured Credit Union or NCUA-Licensed Permitted Payment Stablecoin Issuer solely on the basis that such entity engages in the business of providing hardware or software to facilitate a Person’s self-custody of their Payment Stablecoins or Private Keys.

Subpart D—Capital and Operational Backstop

§ 706.400 Capital elements.

(a) *Capital elements*. The minimum capital requirement must consist of common equity tier 1 capital and additional tier 1 capital.

(b) *Common equity tier 1 capital*. Common equity tier 1 capital is the sum of the common equity tier 1 capital elements in this paragraph (b). The common equity tier 1 capital elements are:

(1) Any common stock instruments (plus any related surplus) issued by the NCUA-Licensed Permitted Payment Stablecoin Issuer, net of treasury stock, that meet all the following criteria:

(i) The instrument is paid-in, issued directly by the NCUA-Licensed Permitted Payment Stablecoin Issuer, and represents the most subordinated claim in a receivership, insolvency, liquidation, or similar proceeding of the NCUA-Licensed Permitted Payment Stablecoin Issuer;

(ii) The holder of the instrument is entitled to a claim on the residual assets of the NCUA-Licensed Permitted Payment Stablecoin Issuer that is proportional with the holder's share of the NCUA-Licensed Permitted Payment Stablecoin Issuer's issued capital after all senior claims have been satisfied in a receivership, insolvency, liquidation, or similar proceeding;

(iii) The instrument has no maturity date, can only be redeemed via discretionary repurchases with the prior approval of the NCUA, and does not contain any term or feature that creates an incentive to redeem;

(iv) The NCUA-Licensed Permitted Payment Stablecoin Issuer did not create at issuance of the instrument through any action or communication an expectation that it will buy back, cancel, or redeem the instrument, and the instrument does not include any term or feature that might give rise to such an expectation;

(v) Any cash dividend payments on the instrument are paid out of the NCUA-Licensed Permitted Payment Stablecoin Issuer's net income or retained earnings and are not subject to a limit imposed by the contractual terms governing the instrument;

(vi) The NCUA-Licensed Permitted Payment Stablecoin Issuer has full discretion at all times to refrain from paying any dividends and making any other distributions on the instrument without triggering an event of default, a requirement to make a payment-in-kind, or an imposition of any other restrictions on the NCUA-Licensed Permitted Payment Stablecoin Issuer;

(vii) Dividend payments and any other distributions on the instrument may be paid only after all legal and contractual obligations of the NCUA-Licensed Permitted Payment Stablecoin Issuer have been satisfied, including payments due on more senior claims;

(viii) The holders of the instrument bear losses as they occur equally, proportionately, and simultaneously with the holders of all other common stock instruments before any losses are borne by holders of claims on the NCUA-Licensed Permitted Payment Stablecoin Issuer with greater priority in a receivership, insolvency, liquidation, or similar proceeding;

(ix) The paid-in amount is classified as equity under GAAP;

(x) The NCUA-Licensed Permitted Payment Stablecoin Issuer, or an entity that the NCUA-Licensed Permitted Payment Stablecoin Issuer controls, did not purchase or directly or indirectly fund the purchase of the instrument;

(xi) The instrument is not secured, not covered by a guarantee of the NCUA-Licensed Permitted Payment Stablecoin Issuer or of an Affiliate, and is not subject to any other arrangement that legally or economically enhances the seniority of the instrument;

(xii) The instrument has been issued in accordance with applicable laws and regulations; and

(xiii) The instrument is reported on the NCUA-Licensed Permitted Payment Stablecoin Issuer's financial statements separately from other capital instruments.

(2) Retained earnings.

(3) Accumulated other comprehensive income (AOCI) as reported under GAAP.

(4) Notwithstanding the criteria for common stock instruments referenced in paragraph (b)(1) of this section, common stock issued by the NCUA-Licensed Permitted Payment Stablecoin Issuer and held in trust for the benefit of its employees as part of an employee stock ownership plan does not violate any of the criteria in paragraph (b)(1)(iii), (iv), or (xi) of this section, provided that any repurchase of the stock is required solely by virtue of the Employee Retirement Income Security Act of 1974 (ERISA) for an instrument of an NCUA-Licensed Permitted Payment Stablecoin Issuer that is not publicly-traded. In addition, an instrument issued

by a NCUA-Licensed Permitted Payment Stablecoin Issuer to its employee stock ownership plan does not violate the criterion in paragraph (b)(1)(x) of this section.

(c) *Additional tier 1 capital*. Additional tier 1 capital is the sum of additional tier 1 capital elements and any related surplus. Additional tier 1 capital elements are:

(1) Instruments (plus any related surplus) that meet the following criteria:

(i) The instrument is issued and paid-in;

(ii) The instrument is subordinated to payment stablecoin holders, general creditors, and subordinated debt holders of the NCUA-Licensed Permitted Payment Stablecoin Issuer in a receivership, insolvency, liquidation, or similar proceeding;

(iii) The instrument is not secured, not covered by a guarantee of the NCUA-Licensed Permitted Payment Stablecoin Issuer or of an Affiliate, and not subject to any other arrangement that legally or economically enhances the seniority of the instrument;

(iv) The instrument has no maturity date and does not contain a dividend step-up or any other term or feature that creates an incentive to redeem;

(v) If callable by its terms, the instrument may be called by the NCUA-Licensed Permitted Payment Stablecoin Issuer only after a minimum of five years following issuance, except that the terms of the instrument may allow it to be called earlier than five years upon the occurrence of a regulatory event that precludes the instrument from being included in additional tier 1 capital or a tax event that impacts the taxation of the instrument. In addition:

(A) The NCUA-Licensed Permitted Payment Stablecoin Issuer must receive prior approval from the NCUA to exercise a call option on the instrument;

(B) The NCUA-Licensed Permitted Payment Stablecoin Issuer does not create at issuance of the instrument, through any action or communication, an expectation that the call option will be exercised; and

(C) Prior to or simultaneously with exercising the call option, the NCUA-Licensed Permitted Payment Stablecoin Issuer must either replace the instrument to be called with an equal amount

of common equity tier 1 or additional tier 1 instruments or demonstrate to the satisfaction of the NCUA that following redemption, the NCUA-Licensed Permitted Payment Stablecoin Issuer will continue to hold capital commensurate with its risk;

(vi) Redemption or repurchase of the instrument requires prior approval from the NCUA;

(vii) The NCUA-Licensed Permitted Payment Stablecoin Issuer has full discretion at all times to cancel dividends or other distributions on the instrument without triggering an event of default, a requirement to make a payment-in-kind, or an imposition of other restrictions on the NCUA-Licensed Permitted Payment Stablecoin Issuer except in relation to any distributions to holders of common stock or instruments that are pari passu with the instrument;

(viii) Any cash dividend payments on the instrument are paid out of the NCUA-Licensed Permitted Payment Stablecoin Issuer's net income or retained earnings;

(ix) The instrument does not have a credit-sensitive feature, such as a dividend rate that is reset periodically based in whole or in part on the NCUA-Licensed Permitted Payment Stablecoin Issuer's credit quality, but may have a dividend rate that is adjusted periodically independent of the NCUA-Licensed Permitted Payment Stablecoin Issuer's credit quality, in relation to general market interest rates or similar adjustments;

(x) The paid-in amount is classified as equity under GAAP;

(xi) The NCUA-Licensed Permitted Payment Stablecoin Issuer, or an entity that the NCUA-Licensed Permitted Payment Stablecoin Issuer controls, did not purchase or directly or indirectly fund the purchase of the instrument; and

(xii) The instrument does not have any features that would limit or discourage additional issuance of capital by the NCUA-Licensed Permitted Payment Stablecoin Issuer, such as provisions that require the NCUA-Licensed Permitted Payment Stablecoin Issuer to compensate holders of the instrument if a new instrument is issued at a lower price during a specified time frame.

(2) [Reserved]

§ 706.401 Minimum capital and backstop.

(a) *Minimum capital requirement*. An NCUA-Licensed Permitted Payment Stablecoin Issuer must hold minimum capital as follows:

(1) *De novo capital requirement*.

(i) A de novo NCUA-Licensed Permitted Payment Stablecoin Issuer must hold minimum capital equal to the greater of:

(A) The amount specified as part of its licensing conditions; or

(B) $5 million.

(ii) A de novo NCUA-Licensed Permitted Payment Stablecoin Issuer means a permitted payment stablecoin issuer that has received NCUA approval to issue a Payment Stablecoin under this part within the prior 3 years.

(iii) A de novo NCUA-Licensed Permitted Payment Stablecoin Issuer must hold this minimum amount for 36 months, or for a shorter or longer period as specified as part of its licensing conditions or as subsequently determined by the NCUA based on the experience of the NCUA-Licensed Permitted Payment Stablecoin Issuer.

(2) *Ongoing capital requirement*.

(i) An NCUA-Licensed Permitted Payment Stablecoin Issuer must maintain capital commensurate with the level and nature of all risks to which the NCUA-Licensed Permitted Payment Stablecoin Issuer is exposed, including risks for off-balance sheet activities.

(ii) An NCUA-Licensed Permitted Payment Stablecoin Issuer must have a process for assessing its overall capital adequacy in relation to its business model and risk profile and a comprehensive strategy for sustaining an appropriate level of capital to maintain ongoing operations.

(b) *Operational backstop*. An NCUA-Licensed Permitted Payment Stablecoin Issuer must maintain assets:

(1) Equal to 12 months of total expenses.

(i) In the case of an NCUA-Licensed Permitted Payment Stablecoin Issuer that has provided quarterly reports under § 706.205 for one year or more, the NCUA-Licensed Permitted Payment Stablecoin Issuer must calculate the amount required under this paragraph (b)(1) using the quarterly expenses reported in the current quarterly report and the three immediately preceding reports.

(ii) For each calendar quarter in the preceding 12 months for which the NCUA-Licensed Permitted Payment Stablecoin Issuer has not filed a quarterly report required under § 706.205 the NCUA-Licensed Permitted Payment Stablecoin Issuer must calculate its expenses using:

(A) Actual expenses, in the case of an NCUA-Licensed Permitted Payment Stablecoin Issuer that was in operation during a calendar quarter in which it did not file a quarterly report under § 706.205; or

(B) Reasonably determined expenses, which may include annualizing expenses from other quarters, in the case of any other NCUA-Licensed Permitted Payment Stablecoin Issuer.

(2) Consisting of:

(i) United States coins and currency (including Federal Reserve notes) or Money standing to the credit of an account with a Federal Reserve Bank;

(ii) Funds held as deposits or in Share Accounts that are payable upon demand at a U.S. Insured Depository Institution, the balances of which are fully insured by the FDIC or the NCUA; and

(iii) U.S. Treasury bills, notes, or bonds with a remaining maturity of 93 days or less, or issued with a maturity of 93 days or less; and

(3) Separately identified from any reserve assets required under § 706.202 or other assets of the NCUA-Licensed Permitted Payment Stablecoin Issuer on the reports filed under § 706.205.

(c) *Failure to meet minimum capital or backstop requirements*.

(1) An NCUA-Licensed Permitted Payment Stablecoin Issuer must comply with its minimum capital and backstop requirements at the end of each quarter based on the amounts reported in the most recent report required under § 706.205.

(2) An NCUA-Licensed Permitted Payment Stablecoin Issuer that fails to satisfy its minimum capital or backstop requirement at the end of a quarter is prohibited from issuing any new Payment Stablecoins, except as necessary to facilitate a transfer of Payment Stablecoins from one Distributed Ledger to another and provided that the net Outstanding Issuance Value does not increase starting on the first day of the following month and until such time as it satisfies its minimum capital and backstop requirements.

(3) If an NCUA-Licensed Permitted Payment Stablecoin Issuer fails to meet its minimum capital or backstop requirements at the end of two consecutive quarters, it must:

(i) Begin liquidation of Reserve Assets and redemption of outstanding Payment Stablecoins, consistent with § 706.203;

(ii) Not charge Customers a fee to redeem their Payment Stablecoins; and

(iii) Not issue any new Payment Stablecoins going forward.

§ 706.402 Individual additional capital or backstop requirement.

(a) *Applicability.* The NCUA may require an additional capital or backstop requirement for an individual NCUA-Licensed Permitted Payment Stablecoin Issuer in view of its circumstances. For example, an additional capital or backstop requirement may be appropriate for:

(1) Failure of management to assess an appropriate capital requirement to support ongoing operations consistent with the NCUA-Licensed Permitted Payment Stablecoin Issuer's business model and risk profile;

(2) An NCUA-Licensed Permitted Payment Stablecoin Issuer that has, or is expected to have, losses resulting in capital inadequacy;

(3) An NCUA-Licensed Permitted Payment Stablecoin Issuer with significant exposure due to management's overall inability to monitor and control financial and operating risks;

(4) An NCUA-Licensed Permitted Payment Stablecoin Issuer that is experiencing significant volatility in Payment Stablecoin issuance or redemption;

(5) An NCUA-Licensed Permitted Payment Stablecoin Issuer with significant exposure due to fiduciary or operational risk;

(6) An NCUA-Licensed Permitted Payment Stablecoin Issuer's significant off-balance sheet activities; or

(7) An NCUA-Licensed Permitted Payment Stablecoin Issuer that may be adversely affected by the activities or condition of its Affiliate(s), or other Persons or institutions, with which it has significant business relationships.

(b) *Standards for determination*. The factors to be considered in the determination will vary in each case and may include, for example:

(1) The conditions or circumstances leading to the NCUA's determination that an additional capital or backstop requirement is appropriate or necessary for the NCUA-Licensed Permitted Payment Stablecoin Issuer;

(2) The exigency of those circumstances or potential problems;

(3) The overall condition, management strength, and future prospects of the NCUA-Licensed Permitted Payment Stablecoin Issuer and, if applicable, its Affiliate(s);

(4) The NCUA-Licensed Permitted Payment Stablecoin Issuer's liquidity, capital, and Payment Stablecoin Reserve Assets compared to its peer group; and

(5) The views of the NCUA-Licensed Permitted Payment Stablecoin Issuer's owners and senior management in any response provided under paragraph (c)(2) of this section.

(c) *Procedures—*

(1) *Notice*. When the NCUA determines that an additional capital or backstop requirement above that set forth in § 706.401 are necessary or appropriate for a particular NCUA-Licensed Permitted Payment Stablecoin Issuer, the NCUA will notify the NCUA-Licensed Permitted Payment Stablecoin Issuer in writing of the proposed additional capital or backstop requirement

and the date by which the requirement should be reached (if applicable) and will provide an explanation of why the requirement proposed is considered necessary or appropriate for the NCUA-Licensed Permitted Payment Stablecoin Issuer.

(2) *Response*.

(i)

(A) The NCUA-Licensed Permitted Payment Stablecoin Issuer may respond to the NCUA in writing to the notice.

(B) The response should include any matters which the NCUA-Licensed Permitted Payment Stablecoin Issuer would have the NCUA consider in deciding whether an individual additional capital or backstop requirement should be established for the NCUA-Licensed Permitted Payment Stablecoin Issuer, what the capital or backstop requirement should be, and, if applicable, when it should be achieved.

(C) Any response must be delivered to the designated NCUA official within 30 days after the date on which the NCUA-Licensed Permitted Payment Stablecoin Issuer received the notice or such other time period as the NCUA determines appropriate based on the condition of the NCUA-Licensed Permitted Payment Stablecoin Issuer.

(ii) Failure to respond within the time period specified by the NCUA constitutes a waiver of any objections to the proposed individual additional capital or backstop requirement or the deadline for its achievement.

(3) *Decision*. After the close of the NCUA-Licensed Permitted Payment Stablecoin Issuer's response period, the NCUA will decide, based on a review of the NCUA-Licensed Permitted Payment Stablecoin Issuer's response and other information concerning the NCUA-Licensed Permitted Payment Stablecoin Issuer, whether the individual additional capital or backstop requirement should be established for the NCUA-Licensed Permitted Payment Stablecoin Issuer and, if so, the requirement and the date the requirement will become effective. The NCUA-Licensed Permitted Payment Stablecoin Issuer will be notified of the decision in

writing. The notice will include an explanation of the decision, except for a decision not to establish an individual additional capital or backstop requirement for the NCUA-Licensed Permitted Payment Stablecoin Issuer.

(4) *Submission of plan*. The decision may require the NCUA-Licensed Permitted Payment Stablecoin Issuer to develop and submit to the NCUA, within a time period specified, an acceptable plan to reach the additional capital or backstop requirement established for the NCUA-Licensed Permitted Payment Stablecoin Issuer by the date required.

(5) *Change in circumstances*. If, after the NCUA's decision in paragraph (c)(3) of this section, there is a significant change in the circumstances that materially affects the NCUA-Licensed Permitted Payment Stablecoin Issuer's capital adequacy or its ability to reach the required additional capital or backstop requirement by the specified date, the NCUA-Licensed Permitted Payment Stablecoin Issuer may request, or the NCUA may propose to the NCUA-Licensed Permitted Payment Stablecoin Issuer, a change in the additional capital or backstop requirement for the NCUA-Licensed Permitted Payment Stablecoin Issuer, the date when the minimum must be achieved, or the NCUA-Licensed Permitted Payment Stablecoin Issuer's plan (if applicable). Pending a decision on reconsideration, the NCUA's original decision and any plan required under that decision continues in full force and effect.

Subpart E—Supervision and Enforcement Policy for Anti-Money Laundering/Countering the Financing of Terrorism Program Requirements for NCUA-Licensed Permitted Payment Stablecoin Issuers

§ 706.501. Definitions.

For purposes of this section:

AML/CFT enforcement action means any formal or informal action taken under authority of 12 U.S.C. 5905, 12 U.S.C. 1786, or other applicable law, that seeks to penalize, remedy, prevent, or respond to noncompliance with past or ongoing violations of, or past or ongoing deficiencies relating to, an AML/CFT requirement. The term includes—

(1) A cease-and-desist order, written agreement, consent order, or memorandum of understanding; or

(2) The assessment of a civil money penalty.

AML/CFT requirement means:

(1) A requirement of the Bank Secrecy Act or applicable regulations at 31 CFR chapter X;

(2) A requirement of 12 U.S.C. 5903(a)(5)(A)(i)-(v), 12 U.S.C. 5903(a)(6)(B), or 12 U.S.C. 5903(f)(1)(A); or

(3) A requirement prescribed under 12 U.S.C. 1786(q) or this section.

Significant AML/CFT supervisory action means any written communication or other formal supervisory determination that—

(1) Identifies one or more alleged deficiencies, weaknesses, violations of law, or unsafe or unsound practices or conditions relating to an AML/CFT requirement;

(2) Communicates supervisory expectations to an NCUA-Licensed Permitted Payment Stablecoin Issuer regarding actions or remedial measures required to correct the deficiency, weakness, violation, or practice or condition; and

(3) contemplates significant or programmatic actions or remedial measures to be taken by the NCUA-Licensed Permitted Payment Stablecoin Issuer.

The term does not include examiner observations, suggestions, or other informal comments.

§ 706.502. NCUA Supervision and Enforcement Policy

(a) In general. Except with respect to a significant or systemic failure to implement an effective AML/CFT program in accordance with applicable regulations at 31 CFR Chapter X, an NCUA-Licensed Permitted Payment Stablecoin Issuer that has established an effective AML/CFT program in accordance with applicable regulations at 31 CFR Chapter X will not be subject to an AML/CFT enforcement action or to a significant AML/CFT supervisory action related to the

requirements of 31 U.S.C. 5318(h)(1), this section, or applicable regulations at 31 CFR Chapter X.

(b) *Program establishment violations*. Nothing in this subpart E may be construed to restrict an AML/CFT enforcement action or a significant AML/CFT supervisory action with respect to any failure to establish an effective AML/CFT program in accordance with applicable regulations at 31 Chapter X.

(c) *Criminal enforcement unaffected*. Nothing in this subpart may be construed to affect criminal enforcement liability under the Bank Secrecy Act.

§ 706.503. FinCEN consultation.

(a) *Consultation and consideration requirement*. Before initiating an AML/CFT enforcement action or a significant AML/CFT supervisory action, the NCUA will provide the FinCEN Director an opportunity to review the action and will consider any input offered by the FinCEN Director on the action, which may include any view as to the effectiveness of the NCUA-Licensed Permitted Payment Stablecoin Issuer's AML/CFT program.

(b) *Notice requirement*. To provide the FinCEN Director an opportunity to provide a view under paragraph (a) of this section, the NCUA will:

(1) Send written notice to the FinCEN Director of its intent to take that action at least 30 days before taking the action (unless a shorter period of time is necessary, in the sole discretion of the NCUA, to remedy, prevent, or respond to an unsafe or unsound practice or condition), accompanied by the relevant AML/CFT information underlying the proposed action, including the relevant portions of the draft report or enforcement action, the relevant examination workpapers supporting the proposed action, and the relevant AML/CFT information submitted by the NCUA-Licensed Permitted Payment Stablecoin Issuer to the NCUA, other than information over which the NCUA-Licensed Permitted Payment Stablecoin Issuer may claim privilege under Federal or State law; and

(2) Respond to the extent reasonably practicable to requests for additional information from the FinCEN Director regarding the proposed action.

§ 706.504. Disclosure of supervisory information to FinCEN.

[OPTION A]

The NCUA permits a permitted payment stablecoin issuer subject to the NCUA's jurisdiction, on behalf of the NCUA, to disclose to the FinCEN Director, and permits the FinCEN Director to use, any information relating to an existing or potential AML/CFT enforcement action or significant AML/CFT supervisory action to which the permitted payment stablecoin issuer has access.

[OPTION B]

(a) The NCUA permits a permitted payment stablecoin issuer subject to the NCUA's jurisdiction, on behalf of the NCUA, to disclose to the FinCEN Director, and permits the FinCEN Director to use, any information relating to an existing or potential AML/CFT enforcement action or significant AML/CFT supervisory action to which the permitted payment stablecoin issuer has access upon the contemporaneous disclosure of such information to the NCUA

(b) A permitted payment stablecoin issuer's disclosure of information to the FinCEN Director under paragraph (a) of this section does not waive, invalidate, destroy, or otherwise affect any privilege or protection available under Federal or State law, including the attorney-client privilege, the work-product doctrine, the bank-examination privilege, or any other confidentiality or evidentiary privilege.

(c) Any disclosure made by a permitted payment stablecoin issuer under paragraph (a) of this section is made on behalf of the NCUA pursuant to the NCUA's authorization under 12 U.S.C. 1821(t).

PART 745—SHARE INSURANCE COVERAGE

7. Authority for part 745 continues to read as follows:

Authority: 12 U.S.C. 1752(5), 1757, 1765, 1766, 1781, 1782, 1787, 1789; title V, Pub. L. 109-351;120 Stat. 1966.

8. Amend § 745.2 by adding a new paragraph (f) to read as follows:

* * * * *

(f) *Technology used to record accounts*. The technology or type of recordkeeping utilized by an Insured Credit Union to record account liabilities does not affect whether those liabilities constitute "accounts."

* * * * *

9. Revise § 745.6 to read as follows:

§ 745.6 Accounts held by a corporation, partnership or unincorporated association.

(a) Accounts of a corporation, partnership, or unincorporated association engaged in any independent activity shall be insured up to the SMSIA in the aggregate. The account of a corporation, partnership, or unincorporated association not engaged in an independent activity shall be deemed to be owned by the Person or persons owning such corporation or comprising such partnership or unincorporated association and, for account insurance purposes, the interest of each Person in such an account shall be added to any other account individually owned by such Person and insured up to the SMSIA in the aggregate. For purposes of this section, "independent activity" means an activity other than one directed solely at increasing insurance coverage.

(b) Notwithstanding any other provision of this part, accounts at an Insured Credit Union held as reserves for a Payment Stablecoin, as defined in the Guiding and Establishing National Innovation for U.S. Stablecoins Act (GENIUS) (12 U.S.C. 5901), are accounts of the permitted payment stablecoin issuer's and insured as corporate accounts for purposes of this part.

PART 747—ADMINISTRATIVE ACTIONS, ADJUDICATIVE HEARINGS, RULES OF PRACTICE AND PROCEDURE, AND INVESTIGATIONS

10. The authority citation for part 747 is revised to read as follows:

Authority: 12 U.S.C. 1766, 1782, 1784, 1785, 1786, 1787, 1790a, 1790d, 5905, and 5913; 15 U.S.C. 1639e; 42 U.S.C. 4012a; Pub. L. 101-410; Pub. L. 104-134; Pub. L. 109-351; Pub. L. 114-74.

11. Amend § 747.1 by revising paragraph (e) and adding paragraph (f) to read as follows:

§ 747.1 Scope.

* * * * *

(e) Suspension or revocation of registration, cease-and-desist, temporary cease-and-desist, removal and prohibition proceedings, or civil money penalties under section 6 of the Guiding and Establishing National Innovation for U.S. Stablecoins Act ("GENIUS Act") (12 U.S.C. 5905); and

(f) This subpart also applies to all other adjudications required by statute to be determined on the record after opportunity for an agency hearing, unless otherwise specifically provided for in subparts B through J of this part.

14. Amend § 747.3 by revising paragraphs (g) and (h) to read as follows:

§ 747.3 Definitions.

* * * * *

(g) Institution includes:

(1) Any Federal credit union as that term is defined in section 101(1) of the Act (12 U.S.C. 1752(1));

(2) Any insured State-chartered credit union as that term is defined in section 101(7) of the FCUA (12 U.S.C. 1752(7)); and

(3) Any NCUA-Licensed Permitted Payment Stablecoin Issuer as that term is defined in 12 CFR 706.2.

(h) Institution-affiliated party means any institution-affiliated party as that term is defined in section 206(r) of the Act (12 U.S.C. 1786(r)). For actions pursuant to the GENIUS Act, institution-affiliated party means any institution-affiliated party as that term is defined in section 2(13) of the GENIUS Act (12 U.S.C. 5901(13)).

* * * * *

12. Amend § 747.3 by revising paragraph (a) to read as follows:

§ 747.703 Authority to conduct investigations.

(a) The General Counsel and persons acting on his or her behalf and at his or her direction may conduct such investigations into the affairs of any insured credit union, NCUA-Licensed Permitted Payment Stablecoin Issuer, or institution-affiliated parties as deemed appropriate to determine whether such credit union or party has violated, is violating or is about to violate any provision of the Act, the GENIUS Act, the NCUA Board's regulations or other relevant statutes or regulations that may bear on a party's fitness to participate in the affairs of a credit union or an NCUA-Licensed Permitted Payment Stablecoin Issuer. The General Counsel and persons acting on his or her behalf may investigate whether any party is unfit to participate in the affairs of a credit union or an NCUA-Licensed Permitted Payment Stablecoin Issuer, whether formal enforcement proceedings are warranted, or such other matters as the General Counsel or his or her designee, in his or her discretion, shall deem appropriate. Such investigations may be conducted either informally or formally.

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