



Payment Stablecoins

A Strategic Guide for Banks

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Payment stablecoins are digital assets you can spend like cash. The issuer is required to redeem each token one-for-one at a fixed dollar value on demand, and the reserves backing the tokens are cash and short-term U.S. Treasuries.[5]

The legal architecture is in place at the federal level. The Guiding and Establishing National Innovation for U.S. Stablecoins Act (the GENIUS Act) was signed into law on July 18, 2025 as Public Law 119-27.[5] The companion Digital Asset Market Clarity Act (the CLARITY Act, H.R. 3633) passed Senate Banking on a bipartisan 15-9 vote on May 14, 2026 and now awaits Senate floor consideration.[10] The implementing rulemakings are in motion across the primary federal stablecoin regulators: OCC, FDIC, Federal Reserve Board, and NCUA, plus FinCEN and OFAC at Treasury.

The strategic question for a bank in 2026 has moved from whether to engage to how to participate, on what timeline, and with which vendors.

This deck is organized in five sections.

- Section 1 covers the basics: what a payment stablecoin is, how blockchain works underneath it. Layer 1 (Bitcoin, Ethereum, Solana, the network infrastructure) is separated from Layer 2 (payment stablecoins, tokenized deposits, the tokens that ride on top).
- Section 2 covers the federal law: the GENIUS Act issuer framework, the nine titles of the CLARITY Act (Senate Banking substitute, reported out 15-9 on May 14, 2026) with particular attention to bank authorities under Title IV (Sec. 401) and the Title IV Sec. 404 yield prohibition, the empirical landscape on deposit displacement, and the three revenue pathways Sec. 404 leaves open.
- Section 3 covers the operational use cases. Cross-border payments, treasury and liquidity management, merchant settlement: these are running in production today. The early bank-issued stablecoin work through consortiums. The Federal Reserve's proposed Reserve Bank Payment Account Prototype (the "skinny master account"). The AI-agent variant where the bank becomes the custody anchor for delegated payment authority.

- Section 4 covers vendor due diligence. Eight archetypes a bank will encounter (issuer, custodian, on/off-ramp, blockchain infrastructure, validator, tokenization vendor, smart-contract developer, analytics provider), and a tailored DD framework for each.
- Section 5 covers the bank's own oversight obligations. Board-approved risk appetite, the five-stage vendor lifecycle, and the five-document examiner-ready file.

Two companion documents accompany this deck. The Stablecoin Vendor Due Diligence Request List is a 50-item document, organized by vendor type, with acceptance criteria stated next to each item. The Stablecoin Readiness Self-Assessment is a tool for CEOs and directors with 15 questions across five readiness dimensions: governance and strategy, treasury and reserve custody, technology and blockchain operations, third-party and fourth-party risk management, and customer-facing and frontline. Both are designed to produce documentation an examiner will look for in the institution's third-party risk management file.

References (deck-wide numbering):

[5] GENIUS Act, Pub. L. No. 119-27, July 18, 2025

[10] CLARITY Act, draft, Senate Banking Committee, May 2026 (H.R. 3633; Senate Banking Committee 15-9 vote on May 14, 2026)

*“A whole new set of competitors is emerging based on blockchain,
which includes stablecoins, smart contracts and other forms
of tokenization.*

We need to roll out our own blockchain technology.”

Jamie Dimon, Chairman and CEO, JPMorgan Chase

2026 Annual Shareholder Letter, April 7, 2026

THE SCALE For every \$1,000 in bank deposits converted to third-party stablecoins (USDC, USDT), only \$150 flows back to banks as interbank reserves. \$850 becomes Treasury holdings of the stablecoin issuer. *(McKinsey & Co., May 2026) **

* System-level accounting identity, not a community-bank-specific outcome. Charles River Associates finds no statistically significant deposit substitution at community banks. CLARITY § 404 closes the high-end scenarios. Community-bank revenue lines on slide 11; empirical landscape on slide 12.

This deck is the framework to respond.

[What stablecoins are](#) → [What federal law says](#) → [What your bank must do](#)



JPMorgan Chase CEO, Jamie Dimon's April 7, 2026 shareholder letter is the one to read.[1][2] The letter names blockchain, stablecoins, and tokenization as a new competitive set, and tells JPMorgan that the bank needs to build its own rails. The line quoted on the slide is verbatim from the letter: "We need to roll out our own blockchain technology." [1]

Read that against where Dimon was two and a half years earlier. On December 6, 2023, in testimony before the United States Senate Committee on Banking, Housing, and Urban Affairs, Senator Elizabeth Warren asked Dimon to explain why crypto was attractive as a financial tool for terrorists, drug traffickers, and rogue nations. Dimon's answer, verbatim from S.Hrg. 118-496, page 48: "I have always been deeply opposed to crypto, Bitcoin, et cetera. You pointed out the only true use case for it is criminals, drug traffickers, anti-money laundering, tax avoidance... If I was the Government I would close it down." [3] That was December 2023. April 2026 the same Dimon tells JPMorgan shareholders the bank needs to build its own blockchain rails.[1] When the largest bank in the United States changes its public position that fully in roughly two years, the implication for the rest of the industry is direct: institutions that don't build, partner, or vendor for these capabilities cede the next era of payments and asset movement to the institutions that do.

McKinsey quantifies the effect on bank balance sheets.[4] For every \$1,000 in bank deposits that converts to a third-party payment stablecoin (USDC or USDT in the typical example), about \$150 returns to the banking system as cash deposits backing the issuer's reserve. The other \$850 ends up in short-term U.S. Treasuries held by the issuer.[4] McKinsey draws the analogy to the money market fund disintermediation of prior decades and notes the same dynamic could compress bank net interest margins and liquidity coverage ratios.[4]

The McKinsey \$150/\$850 ratio is accurate as a system-level accounting statement.[4] It describes where the dollar physically sits after a conversion: cash deposits at qualified depository institutions on one side, U.S. Treasuries on the issuer's balance sheet on the other (GENIUS Act § 4(a)(1)(A) reserve composition[5]; Cong's footnote 37 documents that approximately 90 percent of USDC's cash component is held at Global Systemically Important Banks[6]). The headline misleads when treated as a prediction of community-bank deposit loss. Charles River Associates' regression of stablecoin adoption against community-bank deposit growth found no statistically significant substitution.[7] The McKinsey number does not predict that any individual bank loses \$850 of every \$1,000 in deposits. It describes a system-wide flow that, under existing operational mechanisms and the statutes now in place, redistributes through the banking system rather than disappearing from it. Kundu, Muir, and Zhang document this redistribution in the 2022-23

deposit-reallocation episode: deposits moved between institutions while aggregate credit supply held broadly stable.[8] Trillion-dollar lending-decline scenarios in Nigrinis's yield-competitive case[9] require issuer yields that GENIUS Act § 4(a)(11)[5] and CLARITY Act § 404[10] prohibit.

Three supporting points to add alongside the McKinsey headline.

First, the \$150 that returns as cash deposits concentrates today at G-SIBs. Cong's working paper, footnote 37: approximately 90 percent of USDC's cash reserve sits at Global Systemically Important Banks.[6] A community and regional bank's share of that return flow is small unless the bank participates in a reciprocal-deposit network. Slide 11 walks through that pathway.

Second, the \$850 in Treasuries doesn't leave the banking system. Treasury spends those dollars, and the spent dollars come back into the banking system as deposits at other institutions. Kundu, Muir, and Zhang document this dynamic in the 2022-23 episode: deposits moved between institutions, aggregate credit supply held broadly stable.[8]

Third, the empirical record at community banks as of mid-2025 doesn't support the headline. Charles River Associates regressed stablecoin adoption against community-bank deposit growth and found no statistically significant substitution. [7] Under Section 404 of the CLARITY Act as drafted, the high-end deposit-flight scenarios require issuer yields the statute prohibits.[10] Slide 12 has the full empirical landscape with all six published sources, funding disclosed for each.

The institutional pattern behind Dimon's position is visible in the December 2025 OCC action. On December 12, 2025, the OCC granted conditional approval to five firms for national trust bank charters: two de novo charters (First National Digital Currency Bank and Ripple National Trust Bank) and three conversions from state trust companies (BitGo, Fidelity Digital Assets, Paxos Trust Company).[11] JPMorgan Asset Management launched MONY, its tokenized money market fund, on public Ethereum on December 15, 2025 with an initial \$100 million investment.[12] BlackRock holds roughly \$150 billion in AUM connected to digital assets, including BUIDL (the largest tokenized fund) and approximately \$65 billion in stablecoin reserves, per Larry Fink's 2026 Chairman's Letter to Investors.[13] Tokenized bank deposits process more than \$4 trillion in annual transfers, roughly ten times the \$400 billion in stablecoin payment activity in 2025.[4]

By mid-2026, tokenization and payment stablecoins are part of the financial infrastructure. The institutional behavior of the largest banks and asset managers, combined with the federal legal framework signed into law in 2025, settled that. What's left for a bank in 2026 is how to participate, on what timeline, and with which vendors. The five sections that follow are built around that decision.

References (deck-wide numbering):

[1] Fortune, "Jamie Dimon warns of growing crypto competition in annual JPMorgan shareholder letter: We need to roll out our own blockchain technology," April 7, 2026, <https://fortune.com/2026/04/07/jamie-dimon-warns-growing-crypto-competition-jpmorgan-shareholder-letter-we-need-to-roll-out-blockchain-technology/>

[2] JPMorgan Chase & Co., 2026 Annual Shareholder Letter (full text on JPMorgan investor relations site)

[3] U.S. Senate Committee on Banking, Housing, and Urban Affairs, "Annual Oversight of Wall Street Firms," Hearing Transcript, S.Hrg. 118-496, December 6, 2023, at page 48 (Warren-Dimon colloquy)

[4] McKinsey & Company, "Beyond stablecoins: The emerging architecture of on-chain money," 2026, <https://www.mckinsey.com/industries/financial-services/our-insights/beyond-stablecoins-the-emerging-architecture-of-on-chain-money>

[5] GENIUS Act, Pub. L. No. 119-27, July 18, 2025, § 4(a)(1)(A) (issuer reserve composition) and § 4(a)(11) (issuer yield prohibition)

[6] Cong, L. W., "Stablecoins and Banking: Deposit Dynamics, Financial Stability, and Regulatory Design," Working Paper, December 7, 2025, footnote 37 (USDC reserve composition and G-SIB cash concentration)

[7] Charles River Associates, "Stablecoin Growth and Community Bank Deposits: Empirical Evidence," July 18, 2025

[8] Kundu, S., Muir, T., and Zhang, J., "Diverging Banking Sector: New Facts and Macro Implications," Working Paper, November 21, 2024 (2022-23 deposit-reallocation analog)

[9] Nigrinis (Legal Economics LLC), "The Lending Impact of Stablecoin-Induced Deposit Outflows," October 10, 2025

[10] CLARITY Act, draft, Senate Banking Committee, May 2026, § 404

[11] Office of the Comptroller of the Currency, "OCC Announces Conditional Approvals for Five National Trust Bank Charter Applications," December 12, 2025, <https://www.occ.gov/news-issuances/news-releases/2025/nr-occ-2025-125.html>

[12] JPMorgan Asset Management, MONY (My OnChain Net Yield Fund) launch announcement, December 15, 2025

[13] BlackRock, Larry Fink 2026 Chairman's Letter to Investors, <https://www.blackrock.com/corporate/investor-relations/larry-fink-annual-chairmans-letter>

Blockchain in 90 Seconds

WHAT IT IS

A shared, append-only ledger maintained simultaneously by independent computer nodes hosted around the world. No single party controls it.

WHY IT WORKS

Every new block is cryptographically linked to the prior block and validated by majority consensus across the network. Tampering with one block invalidates every block that follows.

WHAT IS PERMANENT

Each confirmed transaction is permanently recorded and visible to anyone:

- Date and time
- Sender and receiver wallet addresses
- Amount transferred
- Token type (BTC, ETH, USDC, USDT, etc.)
- Transaction fee paid
- Unique transaction ID (the "hash")

WHO CAN MOVE WHAT

Every wallet has two paired keys:

- A public address anyone can see
 - A private key only the owner holds
- Anyone can view the ledger. Only the private-key holder can authorize a transfer. Lose the key, lose the funds.

TWO LAYERS THAT MATTER TODAY

Layer 1: the highway. The blockchain network itself. Bitcoin, Ethereum, Solana. Nodes worldwide validate transactions and record blocks. Each network has a native coin (BTC, ETH, SOL) that pays the transaction fee ("gas") and is itself volatile and speculative.

Layer 2: the vehicles. Tokens engineered for a specific purpose, riding on the Layer 1 network. Payment stablecoins (USDC, USDT, RLUSD), tokenized deposits, NFTs. The smart contract is the vehicle's engine and design; the token's behavior is fixed by code.



A blockchain is a shared accounting ledger maintained at the same time by many independent computers (nodes) around the world. There is no central operator. Every node holds an identical copy of the ledger. New transactions are bundled into blocks. The blocks are validated by majority consensus across the network, and each new block is cryptographically linked to the one before it. Once a block is added, the transaction data inside it cannot be changed. Tampering with any earlier block invalidates every block that follows, and the rest of the network rejects the attempt. The result is a permanent, publicly readable record of all activity on that network.

What gets recorded with each confirmed transaction is the same set of fields every time. Date and time. Sending wallet address. Receiving wallet address. Amount transferred. Token type (BTC, ETH, USDC, USDT). Transaction fee paid. And a unique transaction identifier called the hash. The hash is the permanent reference for the transaction. Anyone with internet access and the hash can look up the transaction on a public block explorer and see exactly what happened.

Wallet ownership rests on public-key cryptography. Every wallet has two mathematically paired keys. The public key produces a public address, which is what other parties send funds to and what anyone can see on the ledger. The private key is a long string held only by the wallet's owner. The private key signs transactions, mathematically proving the owner authorized the transfer. The public address cannot be used to derive the private key. Anyone can see what's in a wallet, but only the holder of the private key can move what's in it. There is no password reset, no help-desk override. If the private key is lost or stolen, the funds in that wallet are lost or stolen with it.

Two layers of the blockchain ecosystem matter for the rest of the deck.

Layer 1 is the network. Bitcoin[14] and Ethereum[15] are the foundational Layer 1 blockchains; Solana, Cardano, and others followed. Each is a global network of nodes that reach consensus, validate transactions, and maintain the shared ledger. Each Layer 1 has its own native cryptocurrency (BTC for Bitcoin, ETH for Ethereum, SOL for Solana) that pays the transaction fee ("gas") that compensates the nodes. The native coin's market price is volatile because it has no underlying asset behind it.

Layer 2 is where payment stablecoins, tokenized deposits, NFTs, and other purpose-built tokens live. Layer 2 tokens are not the infrastructure. They are built on top of the infrastructure.

Highway analogy: Layer 1 is the highway. Layer 2 tokens are the vehicles traveling on it. A vehicle has four components that map cleanly to a Layer 2 token. The body and standard (the token is built to a specification like ERC-20 for fungible tokens[16] or ERC-721 for unique tokens). The engine (the smart contract is the code that defines what the token can do: mint, burn, transfer, freeze). The fuel (the token pays for its trip in the highway's native currency: an ERC-20 token on Ethereum pays gas in ETH). The driver (the holder of the private key is the only party who can move the vehicle).

The practical implication for a bank: a payment stablecoin is not the same thing as a blockchain. The blockchain is the highway. The payment stablecoin is one specific vehicle, engineered for stable-value payment, riding on that highway. The same highway carries volatile cryptocurrencies (Bitcoin, Ether), unique digital collectibles (NFTs), and tokenized representations of traditional assets (tokenized money market funds, tokenized deposits). A bank's exposure depends on which vehicle the bank chooses to operate or partner with, not on the highway itself.

References (deck-wide numbering):

[14] Satoshi Nakamoto, "Bitcoin: A Peer-to-Peer Electronic Cash System," October 31, 2008, <https://bitcoin.org/bitcoin.pdf>

[15] Vitalik Buterin, "Ethereum: A Next-Generation Smart Contract and Decentralized Application Platform," 2014, <https://ethereum.org/en/whitepaper/>

[16] Ethereum Improvement Proposals, ERC-20 Token Standard, <https://eips.ethereum.org/EIPS/eip-20>

What Is a Payment Stablecoin?

GENIUS ACT § 2(22), PUB. L. 119-27, 139 STAT. 421: PAYMENT STABLECOIN

"The term '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."

PAYMENT, NOT INVESTMENT

Built for moving money, not for capital appreciation. Not a security under federal law.

REDEEMABLE 1:1

Holder has the right to redeem one stablecoin for one U.S. dollar, on demand, at par.

STABLE BY DESIGN

Issuer must hold 100% reserves in cash and short-term U.S. Treasuries, subject to monthly independent attestation.

If a digital asset does not meet all three, it is not a "payment stablecoin" under federal law.



The statutory definition is on the slide, in quotation marks.[5] Three points to draw out.

Payment, not investment. Section 4 of the GENIUS Act explicitly removes compliant payment stablecoins from the federal definition of a security or commodity.[5] That carve-out is what makes payment stablecoins usable by banks under existing safety-and-soundness frameworks. It is the most consequential single sentence in the statute for a banker's purposes.

Redeemable one-for-one. The redemption right is what makes the token stable. The reserves are what make the redemption right credible. Both pieces have to be present for the federal definition to apply.[5]

Stable by design. Reserves are 100 percent high-quality liquid assets (cash and short-term U.S. Treasuries).[5] Reserves are subject to monthly attestation by an independent registered public accounting firm under AICPA standards. The attestation is an attestation engagement, not a full audit, and the distinction matters at a board level: the assurance is narrower than what a full audit would deliver. CEO and CFO certifications carry criminal liability for false statements under the Act.[5]

If a digital asset doesn't meet all three of those tests, it is not a payment stablecoin under federal law. The four peg types are on the next slide with identification of which qualify.

References (deck-wide numbering):

[5] GENIUS Act, Pub. L. No. 119-27, July 18, 2025, 139 Stat. 419, codified at 12 U.S.C. 5901-5916 (Sec. 2 definitions including Sec. 2(22) "payment stablecoin"; Sec. 4(a)(1)(A) reserve composition; Sec. 4(a)(1)(A)(iii) 93-day Treasury maturity; Sec. 4(a)(3) monthly accountant examination and CEO/CFO certification; Sec. 4(a)(11) issuer yield prohibition; Sec. 4(e) "federally insured" marketing ban; Sec. 6 enforcement and \$100,000-per-day penalties; Sec. 3(b)(1) 3-year prohibition on offer/sale of non-permitted stablecoins by digital-asset service providers).

The Four Peg Types: And Why Only One Counts

FIAT-BACKED

Reserves: cash, T-bills

Examples: USDC, USDT, RLUSD

Primary risk: Issuer solvency; custody of reserves

ONLY TYPE PERMITTED

COMMODITY-BACKED

Reserves: gold, silver

Examples: PAXG, XAUT

Primary risk: Storage, verification, commodity price

NOT A PAYMENT STABLECOIN

CRYPTO-BACKED

Reserves: BTC, ETH (overcollateralized)

Examples: DAI, DJED

Primary risk: Collateral volatility; smart-contract risk

NOT A PAYMENT STABLECOIN

ALGORITHMIC

No reserves; supply controlled by code

Examples: FRAX, AMPL (TerraUSD collapsed 2022)

Primary risk: Loss of confidence; death-spiral risk

NOT A PAYMENT STABLECOIN

Under the GENIUS Act, only fiat-backed stablecoins meet the federal definition of a "payment stablecoin."



Of the four peg types, only fiat-backed stablecoins meet the federal definition of a payment stablecoin under the GENIUS Act.[5]

The fiat-backed quadrant is the one bankers will encounter in customer and vendor conversations. USDC (issued by Circle), USDT (issued by Tether), and RLUSD (issued by Ripple) are the dominant fiat-backed stablecoins in circulation. [19] USDT is the largest by market capitalization and dominates global stablecoin volume, but it is issued by an offshore entity (licensed in the Bahamas and El Salvador) with historically narrower public disclosure than the U.S. issuers. USDC is the leading U.S.-issued stablecoin and is the furthest along in meeting the compliance requirements under the GENIUS Act framework. RLUSD is newer and is tied to Ripple's institutional cross-border payments strategy. Slide 8 covers all of the major issuers and their charter status.

Commodity-backed and crypto-backed types exist and are legal to issue. They simply don't qualify as payment stablecoins under federal law, and they're regulated under different frameworks (commodities law, securities law, and various state statutes).

Algorithmic stablecoins are the cautionary tale. In May 2022, TerraUSD lost its peg and collapsed alongside its sister asset LUNA. Reuters' timeline coverage and the Federal Reserve Bank of New York Staff Report on Anadu et al. document UST and LUNA market value losses of roughly \$40 billion to \$60 billion over the course of about a week, with broader DeFi-ecosystem contagion losses widely estimated above that range.[20][21] That collapse is part of why the GENIUS Act requires hard-asset reserves and explicitly prohibits algorithmic mechanisms in any compliant payment stablecoin.[5]

References (deck-wide numbering):

[5] GENIUS Act, Pub. L. No. 119-27, July 18, 2025 (§ 4 issuer requirements and reserve composition)

[19] CoinMarketCap, stablecoin market data (current as of presentation date),

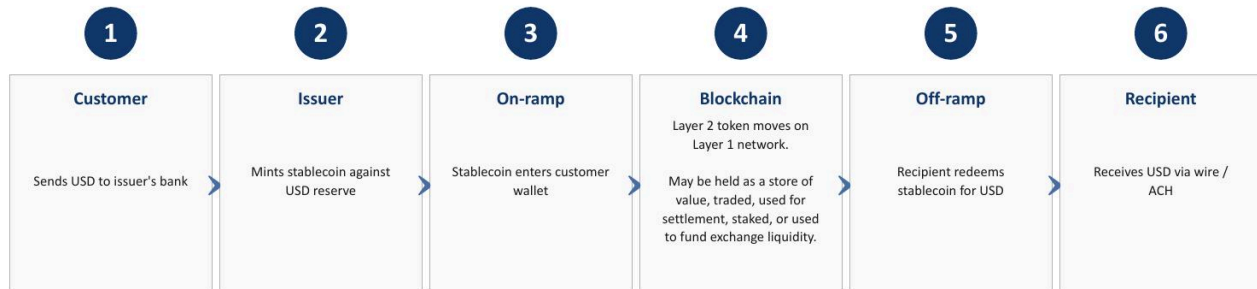
<https://coinmarketcap.com/view/stablecoin/>

[20] Reuters, "Terra's UST stablecoin collapse: A timeline," May 2022

[21] Anadu, K., et al., "Runs and Flights to Safety: Are Stablecoins the New Money Market Funds?" Federal Reserve Bank of New York Staff Reports, No. 1073, September 2023 (revised April 2024).

How a Payment Stablecoin Actually Moves

Today's standard workflow: a customer paying a counterparty via stablecoin rails



WHAT YOU DO NOT SEE ON THIS DIAGRAM

- Reserve attestation. The issuer's reserves are verified monthly by an independent accountant under the GENIUS Act.
- On-chain compliance. BSA/AML/OFAC screening runs continuously against blockchain addresses, not just at on/off-ramps.
- Smart contract. The token's logic is code. Upgrade authority, pause mechanism, and audit history all live in that code.
- Settlement finality. On a blockchain, finality is probabilistic. The recipient is paid when enough blocks confirm, not at one fixed moment.
- On-chain residence. Tokens may sit in self-custody, in centralized exchange wallets, or staked to Proof-of-Stake validators, each with different deposit and yield implications for banks.



The diagram lays out a payment stablecoin transaction as a six-step sequence. The customer funds the issuer's bank. The issuer mints the token against reserves. The token enters a customer wallet via an on-ramp. The token moves on-chain. The recipient redeems via an off-ramp. The recipient receives U.S. dollars via traditional rails. None of these steps is a black box. Each maps to a bank-and-blockchain activity a banker can recognize.

The panel below the workflow lists five things the customer doesn't see but that matter to the bank's risk and compliance posture. The reserve attestation that makes the redemption right credible (GENIUS Act § 5).[5] The on-chain compliance work (BSA/AML/OFAC screening continuously against blockchain addresses, not just at the on/off-ramp boundary). The smart contract code that defines what the token can do, including who has authority to upgrade or pause it. Settlement finality, which on a blockchain is probabilistic (the recipient is paid when enough blocks confirm the transaction). And on-chain residence: where the token actually sits after step 4.

Step 4 is where most of the deposit-dynamics question sits. The diagram implies a clean handoff from the on-ramp to the off-ramp. In real workflows, tokens can sit on the blockchain for hours, days, or longer. Where they sit matters for a bank's deposit dynamics and for the operational risk profile of the network underneath. Holders should also know that payment stablecoins are not FDIC-insured products under the GENIUS Act (the Act prohibits issuers from representing the tokens as federally insured, U.S.-government-backed, or legal tender).[5] The issuer's one-for-one redemption right at par is the holder's primary protection. For anyone using a stablecoin as a store of value rather than a transaction balance, prompt redemption back to an FDIC-insured deposit is the path that preserves that protection.

A token that has moved off a bank-hosted wallet can end up in four places. It can sit in self-custody, controlled directly by the customer through the customer's private key. It can sit in a centralized cryptocurrency exchange wallet, where the exchange controls the keys on the customer's behalf. It can be deposited into a decentralized finance lending or trading protocol, controlled by smart-contract logic rather than a counterparty. Or it can be staked to a Proof-of-Stake validator, locked into the consensus mechanism that secures the underlying network. Two of these destinations have direct implications for the banking system.

The centralized-exchange case is where bank trade associations have concentrated their concern. An exchange holding customer stablecoin balances has many of the operational characteristics of a fractional-reserve bank. It accepts

customer balances. It may pay yield on those balances to attract them. It uses the aggregated balances to fund liquidity for its trading desk or to lend to other on-chain participants. The mechanics are familiar from banking. The regulatory framework is not: the exchange is not subject to FDIC insurance, Federal Reserve supervision, or the prudential capital and liquidity standards that govern depository institutions. Section 404 of the CLARITY Act is the legislative response. [10] It restricts issuers and digital-asset service providers from paying interest or yield directly on payment stablecoin balances. Activity-based rewards (cashback on transactions, market-making rebates) remain permitted. Passive yield on holdings does not. Slide 10 has the full treatment.

Step 4 is where the McKinsey deposit-flight number from slide 2 becomes concrete. When a customer's bank deposit converts to a third-party payment stablecoin and the resulting balance comes to rest in an exchange wallet or other on-chain venue, about \$150 of every \$1,000 returns to the banking system as interbank reserves backing the issuer. The other \$850 becomes U.S. Treasury securities held by the issuer.[6] The dollar leaves the bank's balance sheet. The deposit relationship ends. The lending capacity that depended on that deposit goes with it. (Slide 2 covers the qualifications on this number; the takeaway here is that on-chain residence is where the abstract deposit-flight argument becomes a real change in funding base.)

The deposit-retention counterstrategy is the tokenized bank deposit. A bank that issues its own tokenized deposit keeps the customer balance on the bank's balance sheet, even when the token moves on-chain and is used for B2B payment, settlement, or other on-chain activity. The token is a digital representation of the customer's claim on the bank, not a third-party issuer's claim on a Treasury portfolio. The economics flip: instead of the bank losing \$850 of every \$1,000 to a stablecoin issuer's reserve, the bank keeps the deposit and earns fees on the tokenization service. JPMorgan (Kinexys), Citi (Token Services), and BNY Mellon (Circle reserve custody) have built tokenized-deposit infrastructure operating at trillion-dollar scale. The \$4 trillion annual tokenized-deposit volume reported on slide 13 is the operational measure of this counterstrategy.[4]

Proof-of-Stake networks introduce a separate dynamic. The major Layer 1 blockchains other than Bitcoin (Ethereum, Solana, Cardano, and others) secure their networks through Proof-of-Stake consensus. Validators pledge the native cryptocurrency of the network (ETH on Ethereum, SOL on Solana) as collateral, participate in transaction validation, and earn block rewards paid in additional native coin. Yields are currently in the range of 3 to 7 percent annually depending on the network and operator. The staked balance is locked and at risk of being slashed if the validator misbehaves. Payment stablecoins themselves do not need to be staked, but the network the stablecoin runs on depends on enough independent validators staking enough native coin to keep the network secure. Validator concentration or a large unstaking event are operational risks for any institution settling on that chain.

Bank-operated validator infrastructure is a permitted activity under existing federal regulatory guidance, for both national banks (OCC Interpretive Letters 1174[22], 1183[24], and 1184[25]) and state-chartered banks (parallel authority under 12 USC § 1831a[26], with FDIC or Federal Reserve supervision). It creates a revenue line for participating institutions. Anchorage Digital Bank is the operating proof point.[27]

The picture for step 4: when a token is on-chain, it isn't necessarily moving toward an off-ramp. It can be earning yield in an exchange wallet, deployed in a DeFi protocol, or staked to support consensus on the underlying network. These activities compete with traditional bank deposits, which is why the bank trade associations have pressed for Section 404. They also create revenue opportunities for banks that participate directly, which is why CLARITY Title IV (Sec. 401, Permissibility of Digital Asset Activities) exists. The strategic question for a bank: be part of the on-chain economic activity, or cede the field to the exchanges, DeFi protocols, and federally chartered crypto banks already operating there.

References (deck-wide numbering):

[4] McKinsey & Company, "Beyond stablecoins: The emerging architecture of on-chain money," 2026

[5] GENIUS Act, Pub. L. No. 119-27, July 18, 2025 (§ 5 reserve attestation; marketing prohibitions including representations as federally insured, U.S.-government-backed, or legal tender)

[6] Cong, L. W., "Stablecoins and Banking: Deposit Dynamics, Financial Stability, and Regulatory Design," Working Paper, December 7, 2025, footnote 37 (USDC reserve composition and G-SIB cash concentration)

- [10] Digital Asset Market Clarity Act, Senate Banking Committee substitute, reported out 15-9 on May 14, 2026 (Title IV Sec. 401 Permissibility of Digital Asset Activities; Title IV Sec. 404 Prohibiting Interest and Yield on Payment Stablecoins). Section-by-Section, May 12, 2026, <https://www.banking.senate.gov/imo/media/doc/section-by-section.pdf>
- [22] OCC Interpretive Letter 1174, "OCC Chief Counsel's Interpretation on National Bank and Federal Savings Association Authority to Use Independent Node Verification Networks and Stablecoins for Payment Activities," January 4, 2021
- [24] OCC Interpretive Letter 1183, March 7, 2025 (rescinded IL 1179, removed supervisory non-objection requirement)
- [25] OCC Interpretive Letter 1184, "Clarification of Bank Authority Regarding Crypto-Asset Custody Services," May 7, 2025
- [26] 12 U.S.C. § 1831a (Federal Deposit Insurance Act § 24, activity-parity provision for insured state-chartered banks)
- [27] Office of the Comptroller of the Currency, conditional charter approval for Anchorage Digital Bank, National Association, January 13, 2021

Stablecoins Are Not Bitcoin

Same plumbing. Different purpose. Different risk profile.

BITCOIN / ETHER (LAYER 1)		PAYMENT STABLECOIN (LAYER 2)	
Purpose	Secure, irreversible, near-instant peer-to-peer settlement and programmable transactions; store of value	Purpose	Settlement of payments at fixed value
Price	Volatile (BTC has moved 30%+ in a single month)	Price	Pegged 1:1 to USD; minimal deviation
Backing	None: value is purely market-driven	Backing	100% high-quality liquid assets (cash, T-bills)
Regulation	Treated as a commodity / digital asset	Regulation	GENIUS Act: federal framework, monthly attestations
Banking use	Custody; collateral against loan products; transfer and settlement of Layer 2 assets	Banking use	Payments, custody, tokenized deposits, settlement

Bitcoin and Ether are the Layer 1 networks. Payment stablecoins are Layer 2 tokens that run on those networks.



Bitcoin was designed as a peer-to-peer electronic cash system. The opening line of the Bitcoin whitepaper reads: "A purely peer-to-peer version of electronic cash would allow online payments to be sent directly from one party to another without going through a financial institution." [14] The stated purpose is settlement of value transfers without intermediaries. Ethereum extended the same trustless architecture into general-purpose programmable transactions through smart contracts. [15] The original purpose of these Layer 1 networks is secure peer-to-peer settlement and programmable transactions. That is what their creators said they were building.

The secondary market price of Bitcoin and Ether is volatile, and both assets are widely treated as a store of value rather than as everyday electronic cash. The whitepaper purpose and the market behavior have diverged. Holding Bitcoin or Ether may produce upside. Spending Bitcoin or Ether gives up that upside. The classic illustration is the Bitcoin Pizza transaction of May 22, 2010, in which Florida programmer Laszlo Hanyecz paid 10,000 BTC for two Papa John's pizzas. [68] At today's BTC price those 10,000 BTC would be worth more than \$1 billion. The same speculative property rewards equity-style buy-and-hold and punishes use as money.

Bitcoin has, over the past 15 years, gone from a fringe digital experiment to a recognized trillion-dollar asset. [68] The trajectory is up over the long term, with significant short-term swings. New all-time highs follow major corrections. The price volatility is exactly the problem payment stablecoins are designed to solve. They keep the settlement properties of the underlying blockchain while engineering a stable redemption value that supports commerce. Most banks today treat Bitcoin and Ether as custody assets and long-term loan collateral rather than as a payment rail, even though these networks were designed for settlement.

Transactions on Bitcoin and Ethereum are secure, irreversible, and near-instant by the standards of bank technology. Bitcoin produces a new block every ten minutes under Proof-of-Work consensus. [14] Most institutional users wait six confirmations for high-confidence finality, about an hour. Ethereum produces a block every twelve seconds and reaches high-confidence finality in roughly thirteen minutes under Proof-of-Stake consensus. [15] These speeds are not instant in the strict sense of Fedwire or a card-network authorization, but they settle dramatically faster than Fedwire batches, ACH, and card-network settlement, and they operate without an intermediary's authorization.

Payment stablecoins solve the volatility problem by sitting on top of these blockchains as Layer 2 tokens. They inherit the

security, irreversibility, and operational properties of Layer 1 settlement while engineering price stability through the reserve and redemption model the GENIUS Act now requires.[5] The Layer 1 settlement properties are what give payment stablecoins their value as a payment rail. The Layer 2 economic design is what makes them usable for commerce. That architectural separation is why a payment stablecoin is not the same product as Bitcoin or Ether, even when it runs on the same underlying blockchain.

When a board member hears "stablecoin" and the first association is "Bitcoin" or "crypto," the confusion is understandable. The two are distinct product categories with distinct risk profiles. The Layer 1 native asset (BTC, ETH) is a speculative store of value with volatile pricing, issued from the network's code as block rewards to validators (under Proof-of-Stake) or miners (under Proof-of-Work). The Layer 2 payment stablecoin (USDC, USDT, RLUSD) is a backed, pegged, regulated payment token under the GENIUS Act framework.[5] The board conversation about adopting payment stablecoins is materially different from a conversation about holding or providing custody for Bitcoin or Ether.

References (deck-wide numbering):

[5] GENIUS Act, Pub. L. No. 119-27, July 18, 2025 (§ 4 explicit exclusion of compliant payment stablecoins from securities and commodities treatment)

[14] Satoshi Nakamoto, "Bitcoin: A Peer-to-Peer Electronic Cash System," October 31, 2008, <https://bitcoin.org/bitcoin.pdf>

[15] Vitalik Buterin, "Ethereum: A Next-Generation Smart Contract and Decentralized Application Platform," 2014, <https://ethereum.org/en/whitepaper/>

[68] CoinMarketCap, Bitcoin and Ether historical price data, <https://coinmarketcap.com/>

The GENIUS Act: What's Now Federal Law

Guiding and Establishing National Innovation for U.S. Stablecoins Act, signed July 18, 2025.

ISSUER MUST

- Hold 100% reserves in cash, Federal Reserve deposits, or short-dated U.S. Treasuries
- Publish monthly attestations by an independent registered accountant
- Maintain CEO and CFO certifications, with criminal liability for false statements
- Honor 1:1 redemption at par, on demand, 24/7
- Segregate reserves from operating assets in a qualified custodian
- Comply with BSA, AML, OFAC: treated like a financial institution

ISSUER CANNOT

- Issue from inside an insured depository institution: must use a separate subsidiary
- Market stablecoins as legal tender or U.S.-government-backed
- Pay interest or yield to holders on stablecoin balances
- Conduct activities beyond issuing, redeeming, custody, and reserve management without approval
- Pledge or rehypothecate reserve assets
- Operate outside of OCC or qualified state oversight (for issuers >\$10B)

Companion bill: Anti-CBDC Surveillance State Act, passed House July 17, 2025 (219-210), prohibits a retail Federal Reserve digital currency. Pending Senate action.



The GENIUS Act is the federal framework for payment stablecoin issuance. It became law on July 18, 2025 (Public Law 119-27). It does two things: it licenses and supervises payment stablecoin issuers, and it sets baseline standards every compliant issuer must meet.

Three issuer types are recognized under the Act.

1. Subsidiary of an insured depository institution, approved as a Permitted Payment Stablecoin Issuer (PPSI). The issuing entity must be a properly structured PPSI, which can be a subsidiary of an insured depository institution, and is subject to its own supervisory framework.
2. Federal Qualified Payment Stablecoin Issuer (FQPSI), supervised by the OCC.
3. State Qualified Payment Stablecoin Issuer (SQPSI), supervised under a state regime certified "substantially similar" to the federal framework by the Stablecoin Certification Review Committee. Any state-supervised issuer exceeding \$10 billion in outstanding stablecoins must transition to federal oversight.

Who issues payment stablecoins today.

Circle Internet Financial issues USDC. Circle operates under a New York limited-purpose trust charter (NYDFS) and is pursuing an OCC national trust bank charter. Primary regulator: NYDFS, with OCC supervision pending. Category once the rule is effective: FQPSI.

Tether Limited issues USDT. Tether is licensed in the Bahamas and El Salvador and is not licensed in the United States. USDT is the largest stablecoin globally by market capitalization and dominates global stablecoin transaction volume.[19] Under the GENIUS Act framework, USDT is non-compliant offshore. The Act prohibits depository institutions from distributing or dealing in non-compliant stablecoins once it is fully effective. The transition deadline is set by statute at no later than January 18, 2027.[5]

Paxos Trust Company issues USDP, PayPal's PYUSD, and Global Dollar USDG. Paxos operates under an NYDFS

limited-purpose trust charter. On December 12, 2025 the OCC granted conditional approval for Paxos Trust Company to convert to a national trust bank.[11] Primary regulator post-conversion: OCC, with NYDFS overlap. Category: FQPSI. Paxos is positioned for multiple branded stablecoin relationships (PayPal, others).

Ripple issues RLUSD. Ripple operates under an NYDFS limited-purpose trust charter. On December 12, 2025 the OCC granted conditional approval for Ripple to establish Ripple National Trust Bank.[11] Category: FQPSI. RLUSD is tied to Ripple's institutional cross-border payments platform.

First National Digital Currency Bank. New de novo OCC national trust bank charter conditionally approved December 12, 2025.[11] In formation. Category: FQPSI.

BitGo Trust. South Dakota state trust converting to a national trust bank under OCC conditional approval December 12, 2025.[11] Category: FQPSI. BitGo has publicly disclosed intent to issue a payment stablecoin under the converted federal charter.

Fidelity Digital Assets. New York state trust converting to a national trust bank under OCC conditional approval December 12, 2025.[11] Category: FQPSI. Fidelity has publicly disclosed intent to issue a payment stablecoin under the converted federal charter.

Two observations from this directory. First, the payment stablecoin business is consolidating into the trust-bank charter type. That is the structure the OCC has explicitly designed to host the activity. Second, of the issuers a U.S. bank will encounter in vendor diligence, almost all operate under either NYDFS or OCC supervision (or both). A bank evaluating a serious payment stablecoin relationship will encounter the OCC at some point in the diligence process.

Reserve composition under the Act: cash, demand deposits at insured depository institutions, Federal Reserve deposits, short-dated U.S. Treasury bills, repos collateralized by Treasuries, and money market funds limited to those assets.[5] No other instruments qualify.

Enforcement: civil penalties up to \$100,000 per day, criminal sanctions for unauthorized issuance, and revocation authority.[5] Executive certifications carry personal criminal liability for false statements.

The rehypothecation prohibition is asymmetric. The Act restricts what the issuer can do with its reserve assets: the issuer cannot pledge, rehypothecate, or reuse those reserves outside narrow exceptions (margin obligations on permitted reserve investments, standard custodial services, and overnight repos on short-term Treasuries to meet redemption requests). The Act does not impose corresponding restrictions on the bank that holds the issuer's reserve deposits. When an issuer places reserve cash as demand deposits at an insured depository institution, those deposits become a liability of the bank in the ordinary course. The bank can use the funding to support its lending activities, subject to its own capital, liquidity, and prudential requirements. Issuer reserve deposits are large and stable, and a bank willing to compete for an issuer reserve mandate can obtain meaningful deposit funding that supports its lending franchise.

Most issuer reserve deposits will likely route through deposit-broker networks (IntraFi's ICS and CDARS, and competitors like R&T and Promontory) that allocate large balances across many participating banks so each individual placement stays under the \$250,000 FDIC insurance threshold. The competitive opportunity for community and regional banks is to join those networks. Each participating bank captures a share of the issuer's allocated reserves as long-term, sticky funding, without single-balance concentration. The trade-off is that brokered deposits historically attract higher supervisory scrutiny than core retail deposits, and banks pursuing these mandates should plan treasury and capital posture accordingly.

Implementing rulemakings are in motion across the primary federal payment stablecoin regulators. The OCC issued its notice of proposed rulemaking on February 25, 2026, published in the Federal Register March 2, 2026, with a 60-day comment period closing May 1, 2026. The OCC NPRM addresses requirements for OCC-licensed payment stablecoin issuers: application requirements, permissible activities, the yield prohibition, reserve maintenance and treatment,

redemption obligations, risk management, and capital adequacy. The FDIC and the FinCEN/OFAC joint proposed rules followed on April 10, 2026. The FDIC's separate BSA and sanctions compliance proposed rule (12 CFR Part 350, RIN 3064-AG29, "Bank Secrecy Act and Sanctions Compliance Standards for FDIC-Supervised Permitted Payment Stablecoin Issuers") implements appropriate principles-based BSA and sanctions compliance requirements tailored to the PPSI business model.[28] For an insured state-chartered nonmember bank, the FDIC is the primary federal regulator, and the FDIC's proposed BSA rule is the framework that would apply if the bank elects to issue a payment stablecoin through a subsidiary. The rules will become effective when the GENIUS Act itself is effective, which by statute will be no later than January 18, 2027.[5]

On June 11, 2026, the OCC followed its proposed rule with proposed weekly and quarterly reporting forms for permitted payment stablecoin issuers and foreign payment stablecoin issuers under its jurisdiction (OMB Control No. 1557-NEW; 60-day comment).[69] The weekly form's eight schedules would collect reserve-asset composition down to the instrument level, including weighted average maturity and life, plus the stablecoin's largest holders by wallet address and the exchanges facilitating trading. This is the supervisory-reporting layer beneath the monthly attestation: continuous, granular, and examiner-facing.

References (deck-wide numbering):

[5] GENIUS Act, Pub. L. No. 119-27, July 18, 2025

[11] Office of the Comptroller of the Currency, "OCC Announces Conditional Approvals for Five National Trust Bank Charter Applications," December 12, 2025, <https://www.occ.gov/news-issuances/news-releases/2025/nr-occ-2025-125.html>

[19] CoinMarketCap, stablecoin market data (current as of presentation date), <https://coinmarketcap.com/view/stablecoin/>

[28] FDIC Proposed Rule, "Bank Secrecy Act and Sanctions Compliance Standards for FDIC-Supervised Permitted Payment Stablecoin Issuers," 12 CFR Part 350, RIN 3064-AG29, May 2026

[69] Office of the Comptroller of the Currency, "Reporting Forms and Instructions for Permitted Payment Stablecoin Issuers Subject to the Jurisdiction of the Office of the Comptroller of the Currency," OMB Control No. 1557-NEW (OCC Bulletin 2026-24/2026-24a), June 11, 2026; proposed weekly and quarterly reporting forms implementing 12 CFR 15.14 under the OCC payment stablecoin proposed rule, 91 FR 10202 (March 2, 2026)

The CLARITY Act: What It Does

Digital Asset Market Clarity Act (H.R. 3633): passed Senate Banking Committee 15-9 on May 14, 2026. Awaiting Senate floor.

TITLE	SUBJECT	WHY IT MATTERS FOR YOUR BANK
I	Disclosures for Ancillary Asset Transactions	Ancillary-asset disclosure regime; Regulation Crypto exemption; SIPA applicability.
II	Protecting Against Illicit Finance	Digital-asset intermediaries treated as financial institutions for BSA/AML purposes.
III	Responsible Innovation in Decentralized Finance	DeFi-trading-protocol rules; offshore-stablecoin reports; voluntary NIST cybersecurity program.
IV	Responsible Banking Innovation	Sec. 401 confirms banks may use digital assets for payments, lending, custody, trading. Sec. 404 prohibits passive yield on payment-stablecoin balances; bona-fide activity rewards permitted.
V	Responsible Regulatory Innovation	CFTC-SEC sandbox; tokenization-of-securities study; international AML/CFT coordination.
VI	Protecting Software Developers and Software Innovation	Software-developer safe harbor; Blockchain Regulatory Certainty Act (Sec. 604); Keep Your Coins Act (Sec. 605, self-hosted wallets).
VII	Protecting Customer Property	Customer property protections for ancillary assets and digital commodities in bankruptcy.
VIII	Customer Protection	Educational materials; financial-literacy study; broker-dealer disclosure rules for payment stablecoins.
IX	Other Matters	Joint SEC-CFTC advisory committee; FinCEN appropriations; rulemakings; effective date.

Section 404 (Title IV) is treated on the next slide.



The Senate Banking substitute of the Digital Asset Market Clarity Act has nine titles.[10] Title IV is the one banks should read first.

The Senate Banking Committee voted out H.R. 3633 on a 15-9 bipartisan vote on May 14, 2026.[10][30] Democratic Senators Ruben Gallego (Arizona) and Angela Alsobrooks (Maryland) joined all Republicans on the panel. The House-passed version of H.R. 3633 cleared the House of Representatives on July 17, 2025 by a 294-134 bipartisan vote (all 216 Republicans plus 78 Democrats).[31] The Senate Banking substitute restructures the House-passed six-title bill into the nine-title framework on the slide. The bill awaits Senate floor consideration. Any Senate amendments would require House concurrence or conference before the bill becomes law.

Title IV (Responsible Banking Innovation) is the headline for banks.[10] Section 401 (Permissibility of Digital Asset Activities) amends the Bank Holding Company Act, the National Bank Act, and other banking laws to clarify that financial holding companies, national banks, state banks, and certain credit unions can use digital assets and blockchain technology for any activity they're already allowed to do: payments, lending, custody, and trading.[10] It is the provision that codifies on a forward statutory basis what the OCC, FDIC, and Federal Reserve have already cleared at the supervisory level through their 2025 letters and rescissions.

Three other titles deserve a banker's attention.

Title II (Protecting Against Illicit Finance) addresses the AML playing field. Section 201 requires digital commodity brokers, digital commodity dealers, and digital commodity exchanges to be treated as financial institutions for purposes of the Bank Secrecy Act, which means anti-money-laundering programs, customer identification, and customer due diligence.[10] This is the response to a long-standing complaint from the bank trade associations about asymmetric supervision.

Title VII (Protecting Customer Property) is the bankruptcy safe harbor. Section 701 defines ancillary assets and digital commodities as customer property under Chapter 7 (liquidation) of the bankruptcy code, treating them like other commodities and securities in a bankruptcy proceeding.[10] This is the legislative response to the FTX, Celsius, and Voyager bankruptcies, where customer claims were treated as general unsecured claims against the failed estate.

Title VI (Protecting Software Developers and Software Innovation) carries two provisions banks should know. Section 604, the Blockchain Regulatory Certainty Act, exempts blockchain developers and providers from money-transmitter classification, with criminal-liability carveouts preserved.[10] Section 605, the Keep Your Coins Act, prohibits federal agencies from restricting use of self-hosted wallets for personal digital-asset custody.[10] Both matter for the broader ecosystem of vendors a bank may encounter on the technology side.

Section 404 sits inside Title IV. It is the provision that prohibits issuer-paid passive yield on payment-stablecoin balances, while permitting bona-fide activity or transaction-based rewards under joint rules issued by the SEC, CFTC, and Treasury. [10] Slide 10 has the full treatment.

References (deck-wide numbering):

[10] Digital Asset Market Clarity Act, Senate Banking Committee substitute, reported out 15-9 on May 14, 2026 (nine titles: I Disclosures for Ancillary Asset Transactions, II Protecting Against Illicit Finance, III Responsible Innovation in Decentralized Finance, IV Responsible Banking Innovation [Sec. 401 bank activities; Sec. 404 yield prohibition], V Responsible Regulatory Innovation, VI Protecting Software Developers and Software Innovation [Sec. 604 Blockchain Regulatory Certainty Act; Sec. 605 Keep Your Coins Act], VII Protecting Customer Property, VIII Customer Protection, IX Other Matters). The House-passed engrossed version of H.R. 3633 (July 17, 2025) was a six-title bill; the Senate substitute restructures it.

[30] Senate Banking Committee, "Digital Asset Market Clarity Act: Section by Section," May 12, 2026, <https://www.banking.senate.gov/imo/media/doc/section-by-section.pdf>; Committee press materials at <https://www.banking.senate.gov/newsroom/majority/the-facts-the-clarity-act>

[31] U.S. House of Representatives, Roll Call 199, H.R. 3633 (Digital Asset Market Clarity Act) passage, July 17, 2025, 294-134 (216 R + 78 D). Roll Call 201 was the separate Anti-CBDC Surveillance State Act (H.R. 1919), passed 219-210.

Section 404 in Plain English

The stablecoin yield prohibition every banker is asking about: and what's actually allowed.

PROHIBITED

- ✗ Passive yield paid solely for holding a stablecoin balance
- ✗ Any payment "economically or functionally equivalent" to interest on a bank deposit
- ✗ Tiered "savings-like" rewards based on balance size
- ✗ Yield routed through an affiliate to evade the prohibition

PERMITTED

- ✓ Cashback on stablecoin purchases (like credit-card rewards)
- ✓ Remittance bonuses tied to transaction activity
- ✓ Market-making rebates for liquidity providers
- ✓ Bona-fide activity- or transaction-based rewards, under joint SEC / CFTC / Treasury rulemaking

WHY THIS LINE WAS DRAWN

Bank trade groups (ABA, ICBA, BPI) warned that allowing passive yield on stablecoins would shift deposits out of banks. **ICBA estimated \$850B in community-bank lending decline** driven by ~\$1.3T in deposit migration, out of \$4.8T in total community-bank deposits. § 404 splits the baby: no yield on holding; rewards on transacting are fine.



On December 6, 2023, Jamie Dimon testified before the United States Senate Committee on Banking, Housing, and Urban Affairs at the annual oversight hearing. Senator Elizabeth Warren asked him to explain why crypto was attractive as a financial tool for terrorists, drug traffickers, and rogue nations. His answer is on page 48 of the official hearing transcript, S.Hrg. 118-496. Verbatim from the transcript: "I have always been deeply opposed to crypto, Bitcoin, et cetera. You pointed out the only true use case for it is criminals, drug traffickers, anti-money laundering, tax avoidance... If I was the Government I would close it down." [3]

That testimony was two and a half years ago.

As of mid-2026, JPMorgan's Kinexys platform processes approximately \$2 billion per day in tokenized deposit and payment transfers. Cumulative volume since the platform's 2020 commercial debut exceeds \$1.5 trillion. [32] JPMD, the platform's first U.S. dollar deposit token, is piloting on Base, the public Ethereum Layer-2 network developed by Coinbase, and on Canton. [32] The institution that asked the federal government to close down crypto two and a half years ago is now the largest single bank by volume operating on public-blockchain rails.

Per JPMorgan's December 6, 2023 written testimony (page 8), the same institution serves more than 160 community banks and community-development financial institutions across the country and has expanded its branch footprint into 25 new states since 2017, many of those with substantial rural populations. [33]

The strategic point here isn't political. The rails are being built right now, and the institutions building them are defining how those rails will work. Banks that participate during the formation window get a voice in how the rails are designed. Banks that wait inherit the structure the largest banks and the federally chartered trust banks will have already built.

That's the urgency. The rest of this slide covers what Section 404 actually says, what it permits, what it prohibits, and where the operational decisions sit.

SECTION 404. The most-discussed banker-relevant provision in the bill.

Plain-English summary of the statutory text. "Interest or yield paid solely in connection with the holding of payment

stablecoins" is prohibited.[10] So is any payment that is "economically or functionally equivalent to the payment of interest or yield on an interest-bearing bank deposit." [10]

The analog that grounds the rule: checking-account interest was prohibited by Regulation Q (since 1933, repealed in 2011 for commercial accounts but reinstated in effect by § 404 for payment stablecoin balances). Credit-card cashback is permitted. The distinction is whether the financial benefit attaches to holding the asset or to transacting with it.

The words "yield" and "rewards" are terms of art in this market. Each is attached to a specific product with a specific § 404 treatment. Consumers and bankers without specialized crypto exposure often treat the two words as interchangeable. They are not. Three categories follow.

Rewards. Permitted under § 404.

(1) Staking rewards. Protocol-issued payments to validators on Proof-of-Stake networks, paid in the network's own native token. The payer of record is the protocol itself, not the exchange and not a stablecoin issuer. The underlying asset is a floating Layer-1 native token (Cardano's ADA, Tezos's XTZ, Ethereum's ETH, Solana's SOL), not a payment stablecoin pegged to the dollar. Section 404 doesn't reach these payments.

How staking rewards work in practice. The Coinbase interface advertises "rewards" on assets like ADA, XTZ, ETH, and SOL. Each is a Layer-1 native token that secures its network through a Proof-of-Stake consensus mechanism. The protocol issues new tokens to validators and to the customers who delegate to those validators as payment for the consensus work that confirms transactions. Coinbase runs validator infrastructure, lets customers delegate balances to it, takes a commission (broadly 25 percent of gross reward), and passes the remainder back in the same native token. The dividing line that places staking rewards outside Section 404 is the underlying asset. If the asset is pegged to the dollar (USDC, PYUSD, RLUSD, USDP), Section 404 reaches any yield paid on it. If the asset is a floating Proof-of-Stake L1 native token, Section 404 doesn't.

A revenue line available to banks today: bank-operated validator infrastructure. The Coinbase staking-rewards product is a service offered through an exchange. The same underlying activity (validating transactions on Ethereum, Solana, Cardano, Tezos, and other Proof-of-Stake networks) is a permissible banking activity under existing federal regulatory guidance. Anything Coinbase does as a validator, a bank can do. This isn't a hypothetical waiting on the CLARITY Act. It is a permitted business today.

The regulatory chain runs through six OCC Interpretive Letters and parallel Federal Reserve and FDIC actions. IL 1170 (July 22, 2020) confirmed that national banks may provide cryptocurrency custody services for customers.[17] IL 1172 (September 21, 2020) confirmed that national banks may hold deposits that serve as reserves backing stablecoins.[23] IL 1174 (January 4, 2021) concluded that national banks may use independent node verification networks (the OCC's term for public blockchains) for permissible banking activities, including validating, storing, and recording transactions, and may act as nodes themselves.[22] IL 1179 (November 18, 2021) reaffirmed IL 1170, 1172, and 1174 but added a supervisory non-objection requirement before a bank could begin any of these activities.[34] IL 1183 (March 7, 2025) rescinded IL 1179, removing the supervisory non-objection requirement.[24] Banks may engage in custody, stablecoin reserve holding, and node operation without separate OCC sign-off, subject to ordinary safety-and-soundness expectations. IL 1184 (May 7, 2025) clarified bank authority to outsource crypto-asset custody and execution activities to third-party sub-custodians.[25] The Federal Reserve rescinded its parallel prior-notification regime (SR 22-6 / CA 22-6, April 2022) and withdrew the 2023 interagency joint statements on crypto-asset risks on April 24, 2025.[35] The FDIC rescinded its prior-approval requirement (FIL-16-2022) through FIL-7-2025 on March 28, 2025.[36] CLARITY Title IV (Sec. 401, Permissibility of Digital Asset Activities) codifies these activities in statute on a forward basis.[10]

State-chartered banks have the same underlying authority through the federal activity-parity provision (12 U.S.C. § 1831a / Section 24 of the FDI Act), with FDIC supervision for state nonmembers and Federal Reserve supervision for state members.[26] The same activity that is permitted for a national bank under the OCC letters is available to a state-chartered bank under § 1831a, subject to state banking commissioner approval and the bank's primary federal

regulator's safety-and-soundness expectations. Slide 11 covers the state pathway in more detail (Wyoming SPDI, NYDFS limited-purpose trust, the three-step authorization process).

The operating proof point is Anchorage Digital Bank, a federally chartered OCC national trust bank since January 13, 2021.[27] Anchorage operates validator infrastructure on Ethereum, Solana, Sui, Aptos, Polkadot, and other Proof-of-Stake networks, and offers staking-as-a-service to institutional clients.[37] Anchorage isn't a fintech in a regulatory gap. It's a federally chartered bank, examined and supervised on the activity. The model exists and is operating at scale.

A supervisory note. In April 2022, the OCC entered a consent order against Anchorage Digital Bank citing BSA/AML program deficiencies.[38] Anchorage remediated under OCC supervision and remains a federally chartered national trust bank operating the activities described above. The episode shows the supervisory framework working as intended: the OCC identified deficiencies, required remediation, and the bank continued to operate. A bank pursuing its own validator or stablecoin-reserve build should expect heightened BSA/AML scrutiny in the early operating period and should design its program for that scrutiny from the start.

The revenue model has three streams. First, protocol block rewards. The network issues newly created tokens to validators for proposing and attesting to blocks, paid in the network's own native asset (ETH on Ethereum, SOL on Solana, ADA on Cardano). Second, transaction fees. The validator collects the fees attached to transactions it includes in its blocks. Third, customer commissions on staking-as-a-service. A bank that lets customers delegate balances to its validator takes a share, typically 15 to 25 percent of gross rewards, before passing the remainder back to the customer. Revenue scales with assets-under-delegation in a structure conceptually similar to trust assets-under-administration. A bank that doesn't want to build its own validator operation can participate through an infrastructure provider (Figment, Blockdaemon, Kiln, Coinbase Cloud) on a white-label basis, with a thinner margin.

Diligence items to evaluate before adding this business line:

- Slashing risk. Validators that double-sign or go offline are penalized by the protocol. Ethereum can slash a substantial portion of the bonded stake for double-signing. Solana, Sui, and Aptos carry meaningful penalties. Cardano and Tezos have lighter penalties at the delegator layer. Contractual allocation of slashing exposure between the bank's validator and the delegating customer is a critical term in any staking-as-a-service agreement.
- Operational risk. Validators require 24/7 uptime, hardware-security-module (HSM) key custody, and continuous protocol-upgrade management. In-house operation requires building a specialized operations team. White-label through an infrastructure provider moves the operational risk into a third-party service-provider relationship that itself requires vendor diligence under the FFIEC interagency third-party risk-management guidance.
- Capital treatment. The Basel Committee standard on prudential treatment of cryptoasset exposures (SCO60, December 2022, with January 1, 2026 international implementation) places directly held crypto in Group 2b with a 1,250 percent risk weight.[39] The United States has not finalized adoption. Staked balances held in trust or fiduciary capacity, rather than on the bank's own balance sheet, are the favorable path under both Basel and current U.S. supervisory expectations.
- Tax treatment. IRS Revenue Ruling 2023-14 confirmed that staking rewards are taxable as ordinary income at fair market value on the date the taxpayer gains dominion and control.[40] GAAP treatment runs through ASC 350 with fair-value remeasurement permitted under FASB ASU 2023-08.[41]
- Securities-law overlay on retail staking. SEC v. Payward Ventures (Kraken), settled February 9, 2023, shut down Kraken's retail staking-as-a-service program in the United States on an unregistered-securities theory.[42] The case was effectively wound down in 2025 but not retired by statute. CLARITY Title I resolves the underlying question on a forward basis by classifying the underlying asset as a digital commodity.[10] Institutional and high-net-worth offerings have a cleaner path today than retail-facing programs.

Yield. Varies by source, and Section 404's reach depends on the structure.

(2) Reserve yield. Non-risk to banks, and the structural basis of a direct bank opportunity. Reserve yield is what the issuer (Circle, Paxos, others) earns on the Treasury bills and cash held in the reserve account that backs the token. The issuer keeps this yield. Section 404 prohibits the issuer from passing it through to the holder.

The point that gets missed in most coverage: the cash portion of those reserves sits as deposits at qualified depository institutions.[5] Every payment stablecoin in circulation backs onto a bank deposit on the other side. The bank holding that deposit can deploy it under ordinary reserve and capital rules to fund loans. Banks that compete to hold issuer reserve deposits, individually or through deposit-broker networks (IntraFi's Insured Cash Sweep, Certificate of Deposit Account Registry Service) that spread balances across multiple participating banks to stay within FDIC insurance thresholds, capture funding and net interest margin on the same dollars that would otherwise have left the banking system. Cross River Bank, Customers Bank, and BNY Mellon are visible examples of banks already running this line. The scale matters: Circle's reserve generated more than \$1 billion in reserve interest income in 2023 on the Treasury bills backing USDC, per Circle's S-1 filing, and the figure was in roughly that range again in 2024.[43] The issuer captures the interest piece. The bank holding the underlying cash deposits captures the deposit-funding piece. Reserve yield is not a competitive threat to bank deposits; it is the mechanism by which stablecoin growth flows into bank deposit funding.

(3) Exchange yield. The area of concern. Exchange yield is the "4% APY" or "5% APY" headline that Coinbase, Kraken, and Binance advertise on customer stablecoin balances. This is what Section 404 prohibits when paid on payment stablecoins by digital-asset service providers (DASPs). Exchange yield is the structure that competes directly with bank deposits because it pulls funds out of the bank entirely. The customer moves balances from an insured bank deposit into an exchange wallet, where the exchange pays a higher rate from its own balance sheet under no comparable regulatory framework. This is the structure the bank trade associations have concentrated their objections on. The five commercial reasons that drive the practice are at the end of these notes.

If a cryptocurrency exchange offers your customer "5% APY on your stablecoin balance," that is a prohibited structure under Section 404. The exchange paying that yield isn't subject to deposit insurance, capital requirements, liquidity rules, or the supervisory framework that governs bank deposit pricing. The bright line in Section 404 is that any payment "economically or functionally equivalent to the payment of interest or yield on an interest-bearing bank deposit" is closed to digital-asset service providers when paid on payment stablecoin holdings.

The bank-coalition position. The American Bankers Association (ABA), Independent Community Bankers of America (ICBA), and Bank Policy Institute (BPI) wrote to the Senate Banking Committee through 2025 and 2026 pressing for the strictest possible reading of Section 404.[44] Their arguments converge on three points.

First, deposit flight. If stablecoin issuers or DASPs were permitted to pay yield on payment stablecoin balances, depositors would shift demand from insured bank deposits to higher-yielding uninsured stablecoin balances, with no corresponding capital, liquidity, or supervisory framework on the receiving side. The trade associations cite Federal Reserve and Treasury staff analyses estimating tens to hundreds of billions of dollars in potential deposit outflows under a permissive interest regime.

Second, no symmetry without supervision. A bank paying deposit interest operates under deposit insurance, capital and liquidity rules, supervisory examination, and federal regulator authority to compel changes in pricing or risk management. A DASP paying stablecoin yield operates under none of that. Any economically equivalent payment has to be closed off statutorily because the regulatory framework cannot be made symmetric on the supply side.

Third, lending capacity. ICBA, citing macroeconomic modeling from Nigrinis[9] and Whited, Wu, and Xiao[45], published an analysis estimating that \$1.3 trillion in deposit migration out of community banks (of \$4.8 trillion in total community-bank deposits) would translate into \$850 billion in declining lending activity, with disproportionate impact on small businesses, farmers, and the rural communities the community-bank franchise serves.[46]

These positions are why Section 404 is likely to be revisited on the Senate floor and in conference, and why the bank trade associations consider the provision the single most important banker-relevant line in the bill.

How exchanges actually pay yield on stablecoin balances. When Coinbase, Kraken, or Binance advertises 4 or 5 percent on a stablecoin balance, the yield isn't coming from the token. It's coming from the exchange's own business operations, paid from the exchange's own balance sheet, and it serves the exchange's commercial objectives. Five reasons drive exchanges to offer it. Each creates a different risk to the customer balance.

1. Customer acquisition and retention. Yield is a marketing expense. The exchange treats it the way a bank treats a teaser certificate-of-deposit rate. Pay a few hundred basis points for a defined window, acquire the customer, then recover the cost through trading commissions and spreads on other products the customer eventually uses. The exchange isn't in the deposit business. It's using deposit-style pricing to compete for wallet share.
2. Working capital for exchange operations. Customer stablecoin balances sit in the exchange's commingled wallet. The exchange uses those balances as cheap funding for its own trading desk, market-making operations, and inventory of other listed assets. The customer thinks of the balance as a deposit. The exchange treats it as wholesale funding. There is no segregation requirement and no required reserve at the exchange layer.
3. Decentralized finance (DeFi) yield farming. The exchange takes customer stablecoin balances and deploys them into DeFi lending protocols that pay yield to liquidity providers. The exchange pockets the spread between what DeFi pays it and what it pays the customer. The customer balance becomes an input into smart-contract lending protocols whose risk profile the customer never sees and the exchange doesn't always price correctly.
4. Margin lending and rehypothecation. The exchange lends customer stablecoin balances to other customers who want to trade on margin. Those margin loans are collateralized by the borrower's other assets on the exchange, but the customer whose balance is being lent out is exposed to the borrower's losses if the exchange's risk controls fail. This is the rehypothecation problem from the prime-brokerage world, translated into crypto. The 2022 collapses of Celsius, Voyager, and FTX traced directly to this practice.
5. Loyalty and tier programs. Headline yields are typically gated behind tiers. Only customers who hold the exchange's own native token (BNB on Binance, FTT on FTX before its collapse) or who trade above a defined monthly volume qualify for the top rate. Yield is a retention mechanism for the exchange's highest-value customers, not a deposit product. The native-token gating also exposes the customer to the exchange's own equity-like instrument, whose decline can take the yield program down with it.

Each of these five mechanics is what Section 404 is responding to. The statute doesn't eliminate the underlying activities. The exchange can still use customer balances as working capital, route them into DeFi, lend them out for margin, or build loyalty tiers. Section 404 simply closes the bank-deposit analog of paying yield on the customer's holdings, because that analog is the structure that pulls funds out of insured deposits at scale and competes with the funding base of every insured depository institution.

What banks should take from this. Section 404 settles one question. Passive yield on payment stablecoins is closed to digital-asset service providers, and bank deposit pricing keeps the bright line it has always had. Section 404 leaves a separate question wide open. Whether banks participate in the protocol-level revenue the same technology creates (validator infrastructure, staking-as-a-service, custody of issuer reserve deposits) is an operational decision, not a regulatory one. Anchorage is doing it. Coinbase is doing it. There is no statute or supervisory letter stopping any bank from doing it. The question for each institution is the path: in-house build, partnership with an OCC-chartered trust bank, or white-label through an infrastructure provider. The time to evaluate is now, while the regulatory framework is settled rather than in motion.

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[5] GENIUS Act, Pub. L. No. 119-27, July 18, 2025

[9] Nigrinis (Legal Economics LLC), "The Lending Impact of Stablecoin-Induced Deposit Outflows," October 10, 2025

[10] Digital Asset Market Clarity Act, Senate Banking Committee substitute, reported out 15-9 on May 14, 2026 (Title I ancillary-asset/network-token classification framework; Title IV Sec. 401 Permissibility of Digital Asset Activities; Title IV Sec. 404 Prohibiting Interest and Yield on Payment Stablecoins). Section-by-Section, May 12, 2026, <https://www.banking.senate.gov/imo/media/doc/section-by-section.pdf>

[17] OCC Interpretive Letter 1170, "Authority of a National Bank to Provide Cryptocurrency Custody Services for Customers," July 22, 2020

[22] OCC Interpretive Letter 1174, "OCC Chief Counsel's Interpretation on National Bank and Federal Savings Association Authority to Use Independent Node Verification Networks and Stablecoins for Payment Activities," January 4, 2021

[23] OCC Interpretive Letter 1172, "National Bank and Federal Savings Association Authority to Hold Stablecoin Reserves," September 21, 2020

[24] OCC Interpretive Letter 1183, March 7, 2025 (rescinded IL 1179, removed supervisory non-objection requirement)

[25] OCC Interpretive Letter 1184, "Clarification of Bank Authority Regarding Crypto-Asset Custody Services," May 7, 2025 (custody, execution, sub-custody outsourcing)

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[27] Office of the Comptroller of the Currency, conditional charter approval for Anchorage Digital Bank, National Association, January 13, 2021

[32] JPMorgan Chase & Co., Kinexys (formerly Onyx) deposit-token disclosures and Base-network deployment, 2024-2026, <https://www.jpmorgan.com/kinexys>

[33] JPMorgan Chase & Co., Written Testimony of Jamie Dimon before the United States Senate Committee on Banking, Housing, and Urban Affairs, December 6, 2023, at page 8

[34] OCC Interpretive Letter 1179, November 18, 2021 (added supervisory non-objection requirement; subsequently rescinded by IL 1183)

[35] Federal Reserve Board, "Federal Reserve Board announces the withdrawal of guidance for banks related to their crypto-asset and dollar token activities," April 24, 2025 (withdrawal of SR 22-6 / CA 22-6 and SR 23-8 / CA 23-5)

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[40] Internal Revenue Service, Revenue Ruling 2023-14, "Federal Income Tax Treatment of Staking Rewards," August 1, 2023

[41] FASB Accounting Standards Update (ASU) 2023-08, "Intangibles, Goodwill and Other, Crypto Assets (Subtopic 350-60)," December 2023

[42] SEC v. Payward Ventures, Inc. and Payward Trading, Ltd. (Kraken), Settlement, February 9, 2023, SEC Release No. 33-11151

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Three Revenue Lines § 404 Leaves Open

The provision closes one structure (issuer-paid yield on holdings). It does not close the three pathways below, each of which is operational under existing supervisory guidance.

<p>1 RESERVE-DEPOSIT CUSTODY</p> <p>GENIUS § 4(a)(1)(A) requires issuers to back tokens 1-for-1 with cash and short-term U.S. Treasuries. About 10% of USDC reserves sit as cash at qualified depository institutions; ~90% concentrates at G-SIBs today. National and state-chartered banks can compete to hold a share, individually or through IntraFi placement.</p> <hr/> <p>\$4-6B</p> <p><small>approximate cash-deposit pool generated by USDC reserves alone (10% of ~\$60B Circle reserve fund, Oct 2025)</small></p>	<p>2 RECIPROCAL DEPOSIT REDISTRIBUTION</p> <p>IntraFi ICS and CDARS networks redistribute deposits across insured institutions to keep balances under FDIC limits. ICBA's June 2026 Independent Banker endorsed the mechanism. National or state-chartered banks that join the network can receive a share of reserve-deposit flows that today concentrate at G-SIBs, with no balance-sheet exposure to the issuer.</p> <hr/> <p>131%</p> <p><small>growth in reciprocal-deposit volume, 2022 to 2023 (ICBA Independent Banker, June 2026)</small></p>	<p>3 VALIDATOR & TOKENIZATION REVENUE</p> <p>OCC IL 1174 / 1183 / 1184 authorize national banks to operate validator infrastructure on proof-of-stake networks. State-chartered banks have parallel authority under 12 USC § 1831a (FDIC or Federal Reserve supervision). Three revenue streams: protocol block rewards, transaction fees, staking-as-a-service. Anchorage Digital Bank is the federally-chartered operating proof point.</p> <hr/> <p>15-25%</p> <p><small>typical commission a bank validator captures on customer staking-as-a-service balances</small></p>
<p>REGULATORY ANCHOR : All three pathways open to national and state-chartered banks under existing federal supervisory guidance. CLARITY Title IV (Sec. 401) codifies these activities on a forward basis.</p>		



Three revenue and franchise pathways are open to community and regional banks under Section 404. All three are operational today at other institutions. All three are accessible under existing supervisory guidance. None is closed by Section 404.

Section 404 closes one specific structure: passive yield paid by an issuer or a digital-asset service provider on a holder's payment stablecoin balance.[10] The bank-trade-association objection that drove the provision was the deposit-flight concern: an uninsured exchange paying 5 percent on a stablecoin balance pulls funds out of the insured deposit base. Section 404 closes that structure. It does not close the three pathways on this slide.

PATHWAY 1. RESERVE-DEPOSIT CUSTODY.

GENIUS Act Section 4(a)(1)(A) requires every payment stablecoin issuer to back outstanding tokens one-for-one with cash and short-term U.S. Treasuries (maturity 93 days or less under Section 4(a)(1)(B)).[5] The reserve has to be held in segregated form at qualified depository institutions. The Treasury portion of the reserve generates yield for the issuer (the issuer retains it; Section 404 prohibits passing it through to the holder).[10] The cash portion sits as deposits.

The empirical composition for USDC, footnote 37 of Cong's working paper, verbatim: "USDC is fully reserved at all times by cash and equivalents kept within the regulated financial system. The USDC reserve is approximately 90 percent in short-duration U.S. Treasuries and overnight repurchase agreement (repos) largely held with Global Systemically Important Banks (G-SIBs). The treasuries are managed by BlackRock via the SEC-regulated Circle Reserve Fund, which discloses holdings daily. The remainder of the USDC reserve (10 percent) is in cash to facilitate immediate liquidity, with approximately 90 percent of this cash held with G-SIBs."[6]

Translated into rough dollars. The USDC reserve was approximately \$60 billion as of October 2025. Ten percent of that, or about \$6 billion, is cash at qualified depository institutions. Approximately 90 percent of that \$6 billion (~\$5.4 billion) sits at G-SIBs. That is one stablecoin. The aggregate cash pool across USDC, PYUSD, RLUSD, USDP, and the bank-issued tokens (JPM Kinexys, Citi Token Services) is multiples of that. The pool is concentrated at the largest banks today. There is no statutory or supervisory reason a community and regional bank can't compete for a share of that pool, individually or through a placement network.

The regulatory chain. OCC Interpretive Letter 1172 (September 21, 2020) confirmed that national banks may hold stablecoin reserve deposits on behalf of issuers.[23] The same activity is permissible for state-chartered banks under existing parallel state guidance and the activity-parity provision at 12 U.S.C. § 1831a.[26] The depository institution holding reserve deposits operates under ordinary deposit-funding economics. The bank holds the deposit. The bank deploys the deposit under ordinary reserve and capital rules to fund loans. The bank earns the net interest margin. The issuer never sees the loan-side economics. The bank captures the funding piece.

PATHWAY 2. RECIPROCAL DEPOSIT REDISTRIBUTION.

The structural problem with reserve deposits is concentration. Issuers want to place reserve cash at institutions large enough to absorb the operational scale and the redemption-flow liquidity. Historically that has meant G-SIBs. The bank-coalition objection to Section 404 was that this concentration pulls deposits out of community and regional banks. Reciprocal deposit networks are the operational mechanism that addresses the concentration without changing the statute.

How reciprocal deposit networks work. IntraFi's Insured Cash Sweep (ICS) and Certificate of Deposit Account Registry Service (CDARS) products let a depositor (a stablecoin issuer, in this case) place a large deposit at a single institution and have that institution distribute the balance across a network of insured banks in increments that stay under the \$250,000 FDIC insurance limit at each receiving institution. The depositor sees one account relationship. The receiving banks each receive a share of the placement.

The data. ICBA's Independent Banker, in its June 1, 2026 sponsored-content article authored by Joe Hooker of IntraFi, reports that reciprocal-deposit volume grew 131 percent from 2022 to 2023 and another 15 percent in 2024.[47] ICBA endorses the mechanism in its operational guidance to member banks. The article doesn't mention stablecoin reserves specifically, but the structure is identical: a large deposit that needs to land at multiple insured institutions for FDIC insurance coverage, operational diversification, and community and regional bank deposit-funding reasons.

What this means for a community and regional bank. A community and regional bank that participates in IntraFi (or in a competing network: R&T Deposit Solutions, Promontory, StoneCastle) can receive a share of reserve-deposit flows that today sit concentrated at the largest U.S. banks. Acquisition cost is the network subscription. Operational lift is low; the network handles the placement mechanics. Balance-sheet exposure to the issuer is zero; the funds become an ordinary insured deposit at the receiving institution, with the depositor holding a single relationship with the placement bank.

PATHWAY 3. VALIDATOR INFRASTRUCTURE AND TOKENIZATION REVENUE.

This is the same revenue line covered in the slide 10 speaker notes (Anchorage Digital Bank, OCC IL 1170/1172/1174/1179/1183/1184, the three revenue streams). Restated here for completeness because it is a separate pathway from reserve-deposit custody, not a duplicate.

The regulatory chain, briefly. OCC IL 1170 (July 22, 2020) permits national bank cryptocurrency custody.[17] OCC IL 1172 (September 21, 2020) permits national banks to hold stablecoin reserve deposits.[23] OCC IL 1174 (January 4, 2021) permits national banks to operate validator nodes on independent node verification networks.[22] OCC IL 1179 (November 18, 2021) added a supervisory non-objection requirement.[34] OCC IL 1183 (March 7, 2025) rescinded IL 1179, removing the non-objection requirement.[24] OCC IL 1184 (May 7, 2025) clarified bank authority to outsource these activities to sub-custodians and execution agents.[25] The Federal Reserve withdrew SR 22-6/CA 22-6 (April 2022) on April 24, 2025.[35] The FDIC issued FIL-7-2025 on March 28, 2025 withdrawing FIL-16-2022.[36] CLARITY Title IV (Sec. 401, Permissibility of Digital Asset Activities) codifies bank digital-asset activity in statute on a forward basis.[10]

State-chartered bank parity. The OCC Interpretive Letters cover national banks directly. State-chartered banks have a parallel pathway through the federal activity-parity provision and their state banking commissioner.

Federal layer. 12 U.S.C. § 1831a (Section 24 of the Federal Deposit Insurance Act, the activity-parity provision) provides that an insured state-chartered bank may engage in activities permissible for a national bank, provided the FDIC has determined the activity poses no significant risk to the Deposit Insurance Fund and the bank meets applicable capital standards.[26] The FDIC made that determination for crypto-related activities (including blockchain or distributed-ledger settlement systems and node operation) through FIL-7-2025 on March 28, 2025, which withdrew FIL-16-2022 and removed the prior-approval requirement.[36] The Federal Reserve did the parallel work for state member banks through its April 24, 2025 withdrawal of SR 22-6 / CA 22-6 and SR 23-8 / CA 23-5.[35] Under these post-2025 frameworks, state-chartered banks (both FDIC-supervised nonmembers and Federal Reserve-supervised members) have the same underlying activity authority as national banks, with no separate prior approval, subject to ordinary safety-and-soundness expectations.

State layer. Each state's banking commissioner has independent authority over the activities of banks chartered in that state. The federal parity provision is necessary but not sufficient. The bank's state banking commissioner has to authorize the activity under state law. Several states have explicit pathways. Wyoming created the Special Purpose Depository Institution (SPDI) charter in 2019 specifically for digital-asset banking activities; Custodia Bank and Kraken Financial are Wyoming SPDIs.[48] New York operates a limited-purpose trust company framework under NYDFS supervision; Circle, Paxos, and Ripple are NYDFS limited-purpose trust companies pursuing OCC national trust bank conversion. South Dakota authorized BitGo Trust Company before BitGo's December 2025 OCC conversion.[11] Texas, Massachusetts, Nebraska, Nevada, and Connecticut have parallel state-level frameworks at various stages. For a state-chartered community and regional bank in a state without an explicit crypto pathway, the path generally requires the state banking commissioner's approval or non-objection on the specific activity, paired with the federal supervisor's awareness.

BSA/AML/sanctions overlay. State-chartered banks are subject to the same BSA/AML/sanctions framework as national banks under FinCEN's authority (31 CFR Chapter X) and the underlying Bank Secrecy Act.[49] The FDIC's primary federal regulator status for state nonmember banks, and the Federal Reserve's for state members, applies to BSA/AML examination as well as safety-and-soundness. The Anchorage 2022 consent order on AML deficiencies is the precedent that applies equally to a state-chartered bank entering the same activity.[38]

The pathway for a state-chartered community and regional bank therefore runs through three steps: state banking commissioner approval, primary federal regulator awareness under the post-2025 frameworks, and BSA/AML program adequacy. The activity is permitted. The work is in the program.

The three revenue streams. (1) Protocol block rewards. The network issues newly created tokens to validators for proposing and attesting to blocks. Paid in the network's native asset (ETH, SOL, ADA). (2) Transaction fees. The validator collects fees attached to the transactions included in its blocks. (3) Customer commissions on staking-as-a-service. A bank that lets customers delegate balances to its validator captures 15 to 25 percent of gross rewards. The structure is conceptually similar to trust assets-under-administration: revenue scales with assets-under-delegation.

Live operating example. Anchorage Digital Bank, a federally chartered OCC national trust bank since January 13, 2021, operates validator infrastructure on Ethereum, Solana, Sui, Aptos, and Polkadot.[27][37] Anchorage offers staking-as-a-service to institutional clients. The institution is examined and supervised by the OCC on the activity. A community and regional bank that doesn't want to build the in-house validator stack can participate through an infrastructure provider (Figment, Blockdaemon, Kiln, Coinbase Cloud) on a white-label basis, in exchange for a thinner margin.

The strategic point. Each of these three pathways exists today, is operational at other institutions, has clear federal regulatory authority, and is available to community and regional banks under the same supervisory framework that governs every other line of business. The decision is whether to participate during the formation window (when business models and partnership structures are still being defined) or to wait until the largest banks and the federally chartered trust banks have already established the structure that community and regional banks plug into.

Diligence themes across all three pathways. Counterparty credit risk on the issuer. Operational risk on the blockchain

rails (validator slashing, key custody, protocol upgrades). BSA/AML and OFAC overlay on on-chain transaction monitoring. Capital treatment under Basel SCO60 (held-in-trust positions are the favorable path; on-balance-sheet positions trigger the 1,250 percent risk weight). Tax and accounting under IRS Revenue Ruling 2023-14 and FASB ASU 2023-08. None of these is a prohibition. All of them require evaluation before the institution moves.

If Section 404 closes the issuer-yield structure, three pathways are left. All three are operational today. All three are available to community and regional banks. The regulatory anchors are the OCC interpretive letter chain (IL 1170, 1172, 1174, 1179, 1183, 1184). The operating proof points are Anchorage, IntraFi, and the Circle Reserve Fund managed by BlackRock. The two companion documents accompanying this deck (the Vendor Due Diligence Request List and the Readiness Self-Assessment) translate the three pathways into operational diligence and readiness frameworks the institution can use immediately.

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- [6] Cong, L. W., "Stablecoins and Banking: Deposit Dynamics, Financial Stability, and Regulatory Design," Working Paper, December 7, 2025, footnote 37 (USDC reserve composition)
- [10] Digital Asset Market Clarity Act, Senate Banking Committee substitute, reported out 15-9 on May 14, 2026 (Title IV Sec. 401 Permissibility of Digital Asset Activities; Title IV Sec. 404 Prohibiting Interest and Yield on Payment Stablecoins). Section-by-Section, May 12, 2026, <https://www.banking.senate.gov/imo/media/doc/section-by-section.pdf>
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- [22] OCC Interpretive Letter 1174, January 4, 2021 (independent node verification networks)
- [23] OCC Interpretive Letter 1172, September 21, 2020 (stablecoin reserve deposits)
- [24] OCC Interpretive Letter 1183, March 7, 2025 (rescinded IL 1179)
- [25] OCC Interpretive Letter 1184, May 7, 2025 (custody, execution, sub-custody outsourcing)
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- [47] Hooker, J. (IntraFi), "Driving Community Prosperity with Reciprocal Deposits," ICBA Independent Banker, June 1, 2026 (ICBA-endorsed sponsored content)
- [48] Wyoming Division of Banking, Special Purpose Depository Institution (SPDI) framework (W.S. § 13-12-101 et seq.); Custodia Bank and Kraken Financial as operating SPDIs
- [49] FinCEN, Bank Secrecy Act regulations at 31 CFR Chapter X

Where the Deposit and Lending Impact Estimates Come From

Six published sources. Three orders of magnitude apart. Each measures a different quantity. All conditioned on yield assumptions § 404 has now settled.

SOURCE	FUNDING / SPONSOR	METHODOLOGY	HEADLINE FIGURE (UNITS)
CEA (White House) April 2026	U.S. Government	Structural model of issuer reserve allocation; quantifies lending effect of yield prohibition	+\$2.1B lending gain from prohibition (baseline)
Charles River Associates July 2025	Industry-disclosed	Empirical regression on observed stablecoin adoption and community-bank deposits	No statistically significant substitution
Cong (Cornell) Dec 2025	Coinbase, Paradigm, PayPal, Stripe (disclosed)	Chiu et al. (2023) framework calibrated to GENIUS; 6% yield threshold for substitution	Neutral or positive below 6% yield
Whited / Wu / Xiao Journal of Finance 2023	Academic, peer-reviewed	Structural BLP demand-system for CBDC; pass-through 10¢ big banks, 57¢ small banks per \$1	20¢ lending decline per \$1 of CBDC
BPI illustrative model 2024	Bank Policy Institute	3-agent toy model; authors disclose "not calibrated to data... behavioral sensitivities chosen for illustration"	Indeterminate; parameter-driven
Nigrinis (Legal Economics LLC) October 2025	Consumer Bankers Association	Whited small-bank pass-through coefficients applied to entire migration pool	\$250B non-interest / \$1.5T yield-case lending decline

REGULATORY ANCHOR
 GENIUS § 4(a)(11) and CLARITY § 404 prohibit issuer-paid yield on payment stablecoins. **The high-end scenarios above model yields the statutes do not permit.** Audience draws its own conclusion.



Six published estimates of how stablecoin growth affects bank deposit funding and lending. Funding disclosed for each. The estimates span more than three orders of magnitude.

Through 2025 and into 2026, bank trade associations (ABA, ICBA, BPI, Consumer Bankers Association, Financial Services Forum) and crypto-industry-funded academics (Cong; Coinbase Institute) published competing estimates of the deposit-and-lending effect from stablecoin growth. Each source measures a different quantity. CEA's \$2.1 billion is a projected lending gain from the yield prohibition, not a deposit-flight floor. Nigrinis's \$1.5 trillion is a projected aggregate lending decline in the yield-competitive scenario.

Row 1. CEA (White House Council of Economic Advisers), April 2026 paper "Effects of Stablecoin Yield Prohibition on Bank Lending." [50] CEA's own analysis. The paper's headline number (\$2.1 billion) is a projected ****lending gain****, not a lending loss: under CEA's baseline structural model, eliminating issuer-paid yield on payment stablecoins (the Section 404 prohibition) increases aggregate bank lending by roughly \$2.1 billion (about 0.02 percent), against a welfare cost of \$800 million (verbatim from page 1: "Increases bank lending by \$2.1 billion and has a net welfare cost of \$800 million"). The community-bank share of that \$2.1 billion is approximately \$500 million (0.026 percent). The paper's worst-case stacking produces \$531 billion in additional aggregate lending, equal to a 4.4 percent increase in bank loans as of 2025Q4. The direction of every figure in the CEA paper is lending ***gained*** by the prohibition, not lending or deposits ***lost***. The headline interpretation: yield prohibition produces a small lending gain at a meaningful welfare cost (cost-benefit ratio 6.6), and the model finds the prohibition is not strongly justified on lending-protection grounds.

Row 2. Charles River Associates, sponsored by an industry coalition with funding disclosed in the paper.[7] CRA ran an empirical regression on observed stablecoin adoption and community-bank deposit growth across multiple periods. The finding: no statistically significant substitution. Stablecoin growth and community-bank deposit growth moved together, not against each other, over the periods analyzed. This is the empirical evidence from the data we have, as of mid-2025.

Row 3. Cong (Cornell), Working Paper December 7, 2025 with appendix dated January 30, 2026, funded by Coinbase, Paradigm, PayPal, and Stripe (funding disclosed on page 1).[6] Cong adapts the Chiu, Davoodalhosseini, Jiang, and Zhu (2023) bank-market-power model from the Journal of Political Economy to the GENIUS Act setting.[51] The calibration produces a threshold. Yields below approximately 6 percent have a neutral or positive effect on aggregate deposits and

lending. Moderate yields (4 to 6 percent) strengthen deposit competition: banks raise deposit rates and expand lending. Only yields above 6 percent generate substitution strong enough to contract bank lending. Under GENIUS Section 4(a)(11) the issuer cannot pay any yield. Under CLARITY Section 404 the same is true for digital-asset service providers paying yield on holdings. The sustainable stablecoin yield is bounded by short-term Treasury returns (approximately 4 percent in November 2025), below the 6 percent contraction threshold.

Row 4. Whited, Wu, and Xiao, academic peer-reviewed and unsponsored.[45] The paper analyzes the bank-disintermediation effect of a Central Bank Digital Currency (CBDC) using a structural BLP (Berry-Levinsohn-Pakes) demand-system model. The paper is about CBDC; the word "stablecoin" does not appear in its abstract or introduction. Findings: a one-dollar non-interest-bearing CBDC reduces bank deposits by 81 cents and reduces bank lending by 20 cents (less than one-fourth of the deposit displacement is passed through to lending, because banks substitute toward wholesale funding). Bank-market-power pass-through coefficients: at concentrated big-bank markets, \$1 of CBDC displaces 10 cents of bank lending. At less concentrated small-bank markets, \$1 displaces 57 cents. The paper's introduction cites and rebuts the 1:1 deposit-to-lending claim attributed to BPI's Greg Baer, in the CBDC context. Whited et al. is the academic ground truth for the structural disintermediation literature; it is the source the bank-coalition figures derive from when the small-bank pass-through coefficient is re-applied to a stablecoin migration pool. Mapping CBDC pass-through to a stablecoin context is a modeling extension done by downstream analyses (Nigrinis), not by Whited et al. themselves.

Row 5. BPI (Bank Policy Institute), 2024 paper "Yield-Bearing Stablecoins Can Destroy Deposits: An Illustrative Model." [52] A three-agent toy equilibrium model (one household, one bank, one stablecoin issuer) with Treasuries set to \$500 and behavioral sensitivity parameters chosen by the authors. The paper's own page-1 disclaimer, verbatim: "It is not calibrated to data... behavioral sensitivities were chosen for illustration." Page 4, verbatim: "it is not meant to provide an estimate of what would actually happen." The model is a teaching exercise, not an empirical estimate. It is included here because it is frequently cited as if it were empirical, and any review of the source should include the disclaimer language.

Row 6. Nigrinis, funded by the Consumer Bankers Association with funding disclosed in the paper.[9] Nigrinis publishes two scenarios. Important: every Nigrinis dollar figure cited below is a projected ****lending decline****, not a deposit-displacement figure. Deposit losses in the Nigrinis model are stated separately as percentages (6.2 percent of total deposits in the non-interest case, 25.9 percent in the yield case). The non-interest scenario aggregates to approximately \$250 billion in lending decline nationally (4 percent of all loans), of which \$18.9 billion is small-business lending and \$10.6 billion is farm lending at small banks alone. The yield-competitive scenario aggregates to \$1.5 trillion in lending decline, with \$110 billion in small-business lending and \$62 billion in farm lending at small banks. The yield-competitive scenario assumes stablecoins pay yields competitive with bank deposits, which is exactly what GENIUS § 4(a)(11)[5] and CLARITY § 404[10] prohibit. The methodology applies the Whited small-bank pass-through coefficient (57 cents per \$1) to the entire migration pool, which is equivalent to assuming 100 percent of migrated deposits come from community banks. Nigrinis is the source of the \$850 billion to \$1.5 trillion headline figures that have circulated in the trade press.

Two empirical refinements from the Cong paper.

First, the high-flow, low-stock dynamic. Stablecoins function primarily as payment instruments, not as savings vehicles. Transaction velocity is high and outstanding balances stay relatively modest. As of October 10, 2025, the entire stablecoin market was approximately 1.7 percent of total U.S. bank deposits.[6] A claim of large deposit erosion requires an explicit behavioral mechanism converting transactional adoption into persistent savings-vehicle holdings outside the banking system. Proportional reasoning from payments volume to deposit displacement isn't analytically valid.

Second, the 2022-23 deposit reallocation analog. Citing Kundu, Muir, and Zhang, Cong notes that the 2022-23 Federal Reserve tightening cycle produced the largest deposit outflows since 1973 from rate-insensitive branch-based banks.[8] Despite that large-scale reallocation, aggregate credit supply in the economy remained broadly stable, because rate-sensitive digital banks absorbed the flows and expanded credit on the other side. The lesson generalizes to stablecoin migration: deposits reallocate, but credit creation doesn't necessarily contract in aggregate.

The Cong Appendix includes a section titled "Clarifications in Response to Commentaries by Certain Advocacy Groups" [6] that responds, point by point, to the August 12, 2025 joint trades letter "Closing the Payment of Interest Loophole for Stablecoins," signed by ABA, BPI, Consumer Bankers Association, Financial Services Forum, and ICBA.[44] The Cong paper is the most direct empirical engagement with the joint trades letter on the academic record so far. The joint trades letter has not been answered by the signatories at the same level of structural-economic detail.

Summary across the six sources. CEA frames Section 404 as a modest net positive for bank lending under its baseline model: +\$2.1B lending gain. Charles River Associates finds no statistically significant substitution in the data through mid-2025. Cong finds neutral or positive aggregate effects below a 6 percent yield threshold. Whited et al. supplies the structural CBDC pass-through that downstream stablecoin analyses re-apply. BPI's 2024 model is, by its authors' own page-1 statement, "not calibrated to data... not meant to provide an estimate of what would actually happen." Nigrinis projects \$250B (non-interest) to \$1.5T (yield-competitive) in lending decline under its small-bank-pass-through application. Under Section 404 as written, the high-yield scenarios all require yields the statutes prohibit.

The concerns from the community-bank trade associations about deposit funding and lending capacity are legitimate. Many community and regional bankers signed onto the joint trades letter through their state and national associations. The six sources here have different funding, different methodologies, and different unit conventions; presenting them side by side lets a banker see what each number actually measures and decide which estimate to credit.

References (deck-wide numbering):

[5] GENIUS Act, Pub. L. No. 119-27, July 18, 2025 (§ 4(a)(11) issuer yield prohibition)

[6] Cong, L. W., "Stablecoins and Banking: Deposit Dynamics, Financial Stability, and Regulatory Design," Working Paper, December 7, 2025 (Appendix January 30, 2026). Funded by Coinbase, Paradigm, PayPal, Stripe (disclosed on page 1)

[7] Charles River Associates, "Stablecoin Growth and Community Bank Deposits: Empirical Evidence," July 18, 2025

[8] Kundu, S., Muir, T., and Zhang, J., "Diverging Banking Sector: New Facts and Macro Implications," Working Paper, November 21, 2024

[9] Nigrinis, A., "The Lending Impact of Stablecoin-Induced Deposit Outflows," Legal Economics LLC, October 10, 2025. Funded by Consumer Bankers Association (disclosed in paper).

[10] CLARITY Act, draft, Senate Banking Committee, May 2026 (§ 404)

[44] American Bankers Association, Bank Policy Institute, Consumer Bankers Association, Financial Services Forum, and Independent Community Bankers of America, "Closing the Payment of Interest Loophole for Stablecoins," August 12, 2025 (joint trades letter)

[45] Whited, T. M., Wu, Y., and Xiao, K., "Will Central Bank Digital Currency Disintermediate Banks?" The Journal of Finance, 2023

[50] White House Council of Economic Advisers, "Effects of Stablecoin Yield Prohibition on Bank Lending," April 2026, <https://www.whitehouse.gov/wp-content/uploads/2026/04/Effects-of-Stablecoin-Yield-Prohibition-on-Bank-Lending.pdf>

[51] Chiu, J., Davoodalhosseini, S. M., Jiang, J., and Zhu, Y., "Bank Market Power and Central Bank Digital Currency: Theory and Quantitative Assessment," Journal of Political Economy, Vol. 131, 2023

[52] Bank Policy Institute, "Yield-Bearing Stablecoins Can Destroy Deposits: An Illustrative Model," 2024

Today's Use Cases: What Stablecoins Are Already Doing

CROSS-BORDER PAYMENTS

Replace correspondent banking and SWIFT for international transfers. Settlement in seconds rather than days. Reduced FX spread.

~1.5%

representative stablecoin remittance fee (varies 1-2% by corridor and provider), vs. 6.36% global average for traditional remittances (World Bank Remittance Prices Worldwide, Q3 2025, Issue 54)

TREASURY & LIQUIDITY

24/7 internal transfers between accounts, subsidiaries, and counterparties. Tokenized bank deposits underpin programmable institutional settlement at scale.

\$4T

annual tokenized bank deposit volume; ~10x the \$400B in stablecoin payment activity (McKinsey & Co., "Beyond stablecoins," 2026)

MERCHANT SETTLEMENT

Instant on-chain settlement to merchant wallets. No chargeback risk. No 1-3 day card-network delay. Optional fiat off-ramp at end of day.

0%

chargeback exposure on settled stablecoin transactions (vs. card networks)



Three production use cases that banks are supporting today.

Cross-border payments. The largest production use case. Companies use stablecoin rails to move money between subsidiaries, pay international suppliers, and remit wages to contractors abroad. Settlement is seconds. Cost is a fraction of correspondent banking. There's no FX intermediary haircut. The 1.5 percent representative remittance fee on the slide is a midpoint; rates vary from roughly 1 percent to 2 percent depending on corridor and provider. The 6.36 percent global average for traditional remittances is from the World Bank's Remittance Prices Worldwide Quarterly, Issue 54, Q3 2025.[53]

Treasury and liquidity management. The institutional center of gravity for stablecoin and tokenized-deposit activity today. Corporate treasurers use tokenized bank deposits and payment stablecoins to move funds between accounts at different banks, on weekends, without waiting for batch processing. The scale is meaningful. McKinsey reports that tokenized bank deposits underpin more than \$4 trillion in annual transfers, roughly ten times the \$400 billion in stablecoin payment activity in 2025.[4] JPMorgan's Kinexys platform has accumulated more than \$1.5 trillion in cumulative volume since its 2020 commercial debut and currently processes approximately \$2 billion per day.[32] Citi operates Token Services for cross-border 24/7 USD clearing. BNY Mellon partners with Circle on USDC reserve custody. Standard Chartered operates a Hong Kong stablecoin initiative. The institutional answer to stablecoin disintermediation is already operating, and it's already larger than the disintermediation itself.

Merchant settlement. The slow-burning revolution. When a merchant accepts stablecoin payment, the transaction settles on-chain immediately and the merchant has the funds in seconds rather than days. There's no chargeback mechanism, which cuts both ways: fewer disputes for the merchant, less recourse for the consumer in the event of a dispute. Banks evaluating merchant-settlement use cases should think about the consumer-protection overlay before recommending the product to retail customers.

A useful exercise for any bank is to take inventory of which commercial customers have asked about stablecoin payments in the last six months. Even a modest count is a signal that these use cases are no longer abstract for the bank's franchise. Institutions that find the count higher than expected may want to accelerate the readiness work rather than wait for further regulatory clarity.

References (deck-wide numbering):

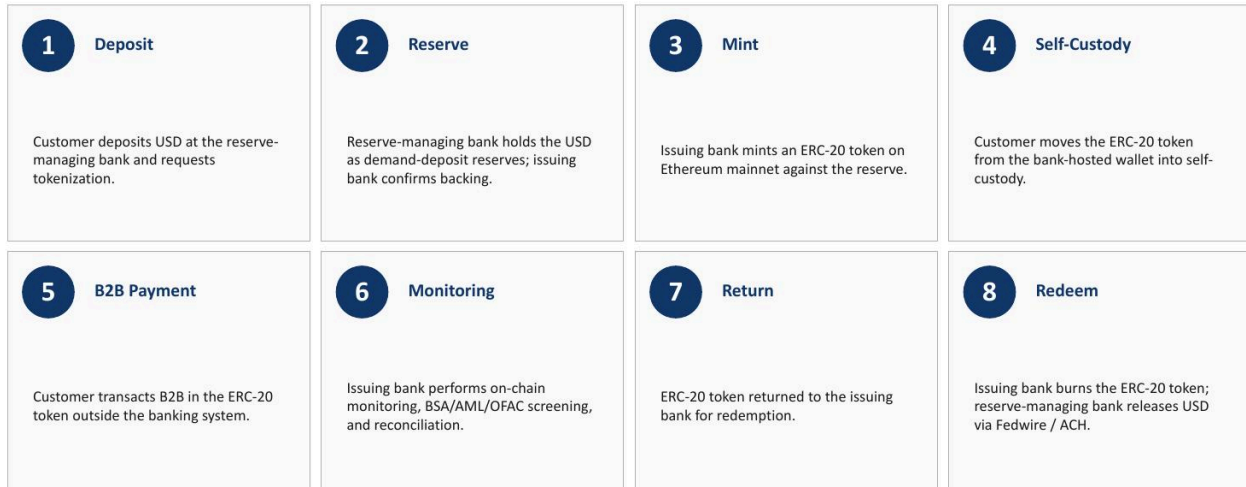
[4] McKinsey & Company, "Beyond stablecoins: The emerging architecture of on-chain money," 2026, <https://www.mckinsey.com/industries/financial-services/our-insights/beyond-stablecoins-the-emerging-architecture-of-on-chain-money>

[32] JPMorgan Chase & Co., Kinexys (formerly Onyx) institutional platform disclosures, 2025-2026, <https://www.jpmorgan.com/kinexys>

[53] World Bank, "Remittance Prices Worldwide Quarterly," Issue 54, Q3 2025 (global average remittance fee 6.36 percent).

An Early Bank-Issued Stablecoin in Practice

Eight stages of a real ERC-20 token cycle executed by two chartered U.S. banks (publicly disclosed, March 2025).



Both banks worked with their primary regulators throughout. BSA/AML/OFAC controls were live from day one.



An eight-stage ERC-20 token cycle executed in production by two U.S. chartered banks. Publicly disclosed in March 2025.

The slide converts abstraction to specifics. Each of the eight stages corresponds to an operational activity a bank can recognize: deposit, custody, AML monitoring, redemption. The blockchain rails don't change what the bank is doing. They change how the money moves between steps.

Mapping the eight on-slide steps to the two institutions: the customer deposits U.S. dollars at Vantage Bank and requests tokenization (step 1); Vantage holds the dollars as demand-deposit reserves while Custodia confirms the backing (step 2); Custodia mints the Avit ERC-20 token on Ethereum mainnet against that reserve (step 3); the customer moves the token into self-custody (step 4) and uses it for a business-to-business (B2B) payment (step 5); Custodia performs on-chain monitoring, BSA/AML/OFAC screening, and reconciliation throughout (step 6); the token is returned to Custodia for redemption (step 7); and Custodia burns the token while Vantage releases the U.S. dollars by Fedwire or ACH (step 8).

Five points to draw out.

1. Two existing bank charters were involved. The issuing bank was Custodia Bank, a Wyoming-chartered special-purpose depository institution; the reserve-managing bank was Vantage Bank, based in Texas. Both were existing chartered U.S. banks under existing federal oversight. Neither required a new charter type.

2. Customer funds were 100 percent backed by demand-deposit reserves throughout the cycle. Reserve composition matched the GENIUS Act standard before the Act became law.

3. The ERC-20 standard is the most widely used token specification on Ethereum. Choosing ERC-20 meant the token could move on existing public-blockchain infrastructure without bespoke wallet, exchange, or bridging work.

4. The customer moved tokens into self-custody (off the bank's books) and transacted B2B with the tokens before redeeming. This step demonstrates that a bank-issued stablecoin can leave the originating bank's environment, change

hands on-chain, and still be redeemed at par. The cycle isn't dependent on the customer staying inside the bank's wallet.

5. AML and OFAC screening operated continuously through the cycle, not just at the on-ramp and off-ramp. Custodia, the issuing bank, performed on-chain monitoring, sanctions screening, and reconciliation while the token was in customer self-custody and during the B2B leg.

The cycle has since opened to other banks through a consortium model. The consortium handles the blockchain infrastructure and wallet hosting on one side. It integrates the tokenized-deposit and stablecoin functionality directly into a participating bank's existing online-banking environment on the other side. A participating bank can offer the capability to customers without building the blockchain stack internally. The references below identify the two participating banks (Custodia and Vantage), the original tokenized-deposit transaction^[54], and the broader platform launch.^[55]

References (deck-wide numbering):

[54] CoinDesk, "Custodia, Vantage Bank Tokenize U.S. Dollar Demand Deposits on Ethereum," March 25, 2025; Ledger Insights, "Custodia Bank partners Vantage for first US bank stablecoin issuance," March 2025

[55] PRNewswire, "Vantage Bank and Custodia Announce Launch of Tokenized Deposits for U.S. Banks," October 23, 2025, <https://www.prnewswire.com/news-releases/vantage-bank-and-custodia-announce-launch-of-tokenized-deposits-for-us-banks-302592931.html>

The Fed's “Skinny” Master Account Proposal

A limited-purpose Federal Reserve account for clearing and settling payments. Request for Information published in the Federal Register December 23, 2025.

FEATURES OF THE PROPOSED ACCOUNT

Use	Clearing and settling payments only
Intraday credit	None
Discount window	None
Interest on balances	None
Payments	Pre-funded only; automated overdraft prevention
Overnight balance cap	Lesser of \$500M or 10% of total assets
Compliance	BSA, AML, OFAC documentation required
Eligibility	Must already be legally eligible for a traditional master account

THREE NEAR-TERM DECISIONS FOR YOUR BANK

- 1 Will we issue tokenized deposits?**

Existing consortium platforms remove the need to build blockchain stack.
- 2 Will we be the eligible depository a fintech affiliates with?**

If the skinny account passes, the affiliation request is coming.
- 3 Will we instead need visibility into our customers' counterparties?**

Even institutions that decline pathways one and two still need to see counterparty activity.

Crypto and fintech firms still need to affiliate with an eligible depository. Banks become the gatekeepers, not the bystanders.



The Reserve Bank Payment Account Prototype is the Federal Reserve's proposed limited-purpose account for non-traditional institutions. It gives those institutions access to clearing and settling payments through the Federal Reserve payment system, without the full set of master-account features (no intraday credit, no discount window, no interest on balances).

Timeline. Federal Reserve Governor Christopher Waller introduced the concept at the inaugural Payments Innovation Conference on October 21, 2025. The Federal Reserve Board issued the Request for Information on December 19, 2025 (press release bcreg20251219a), titled "Request for Information and Comment on Reserve Bank Payment Account Prototype." Federal Register publication December 23, 2025, 90 FR 60096 (Vol. 90, No. 244, pp. 60096-60099).[56] The Board approved the RFI on a 6-1 vote (Governor Barr dissenting). The formal name is the Reserve Bank Payment Account Prototype. "Skinny master account" is the shorthand Waller used in his October remarks. Public comments closed February 6, 2026. Governor Waller has said the Federal Reserve is targeting final rulemaking by the end of 2026.

What it doesn't do. The RFI doesn't expand the universe of institutions eligible to bank with the Federal Reserve. The current eligibility framework remains. A crypto exchange or fintech that wants payment-rail access still has to affiliate with an eligible depository institution, which means a chartered bank.

Why this matters for banks. The three decisions on the right side of the slide.

Decision 1 is offensive. Do we offer this to our customers?

Decision 2 is hosting. Will we serve as the eligible depository an affiliated fintech needs?

Decision 3 is defensive. Do we still need visibility into our customers' counterparties, even if we say no to one and two?

Political alignment is mixed. The RFI was approved on a 6-1 Federal Reserve Board vote, with Governor Michael Barr dissenting. Barr's dissent cited insufficient AML and terrorism-financing safeguards. The American Bankers Association has separately raised concerns about the Kansas City Fed having already granted Kraken Financial a limited account while broader standards were still being deliberated.

Litigation context. The Custodia Bank master-account litigation effectively concluded on March 13, 2026, when the Tenth

Circuit denied rehearing en banc by a 7-3 vote, leaving in place the panel decision that Reserve Banks retain discretion over whether to grant master accounts to otherwise legally eligible institutions.[57] Custodia subsequently filed for an extension to seek certiorari at the Supreme Court; the extension was granted, with a deadline of July 11, 2026. The Reserve Bank Payment Account Prototype is the Federal Reserve's policy answer to the question Custodia tried to resolve through litigation.

References (deck-wide numbering):

[56] Federal Reserve Board press release bcreg20251219a, December 19, 2025, <https://www.federalreserve.gov/newsevents/pressreleases/bcreg20251219a.htm>; Federal Register, "Request for Information and Comment on Reserve Bank Payment Account Prototype," 90 FR 60096 (Vol. 90, No. 244, pp. 60096-60099), published December 23, 2025, <https://www.federalregister.gov/documents/2025/12/23/2025-23712/request-for-information-and-comment-on-reserve-bank-payment-account-prototype>; Board vote 6-1 with Governor Barr dissenting; comment period closed February 6, 2026.

[57] ABA Banking Journal, "Tenth Circuit denies rehearing en banc in Custodia Bank's lawsuit over master accounts," April 2026; Custodia Bank v. Federal Reserve Board, Tenth Circuit denial of rehearing en banc, March 13, 2026 (7-3)

Tomorrow's Thesis: AI + Crypto as National Strategy

"The dollar now has an internet-native payment rail that is fast, frictionless, and free of middlemen."

U.S. Treasury Secretary Scott Bessent, July 18, 2025

AI ACTION PLAN

White House July 2025 plan establishes U.S. leadership in AI and digital financial technology as national strategy.

GENIUS ACT

Federal stablecoin framework provides the legal scaffolding for AI-agent payments at scale.

AI AGENTS

Software agents executing payment decisions on behalf of human principals: commercial deployment expected before consumer.

"Today we call it artificial intelligence. Two years from now we're going to call it business cap ex, and three years from now we're going to call it just ordinary business."

Federal Reserve Board Chairman Kevin Warsh, Senate Banking Committee confirmation hearing, April 21, 2026



AI plus crypto as the current administration's leadership thesis.

The White House AI Action Plan^[59] and the GENIUS Act^[5] are companion pieces of national strategy. The administration's stated posture: the United States should lead globally in both artificial intelligence and digital financial technology, and payment stablecoins are the rails on which AI-driven commerce will run.

Why this matters for a bank. The next generation of financial customers will not just be human. They will be human principals using AI agents to execute commerce.^[63] The agents need a payment rail that can be programmed against, that settles in real time, and that is regulated. The GENIUS Act creates that rail.

This is forward-looking. No bank needs to send/receive payment stablecoins or offer tokenized products and services this year, but the point is that the customer demand pattern is coming, and the administration's policy environment is lowering the barriers.

Treasury Secretary Scott Bessent, in his statement on the day President Trump signed the GENIUS Act (July 18, 2025, Treasury press release SB-0197), said: "The dollar now has an internet-native payment rail that is fast, frictionless, and free of middlemen."^[60] Bessent called stablecoins "a revolution in digital finance" and said the Act "provides the fast-growing stablecoin market with the regulatory clarity it needs to grow into a multitrillion-dollar industry."^[60]

Federal Reserve Board Chairman Kevin Warsh, during his Senate Banking Committee confirmation hearing on April 21, 2026 (confirmed by the Senate 54-45 on May 13, 2026; sworn in May 22, 2026)^[61], gave the maturation timeline this framing: "Today we call it artificial intelligence. Two years from now we're going to call it business cap ex, and three years from now we're going to call it just ordinary business."^[61] The implication for a bank is that the AI-and-stablecoin infrastructure being built today will, on a three-year horizon, be as routine as any other operational technology investment. The competitive question is whether your bank will be using it by then.

AI affects both sides of this picture. The customer-side use case (an AI agent executing payments inside customer-defined parameters) gets most of the attention because it is the visible product. The less visible but equally consequential use case is the bank-side. AI assists institutions with vendor due diligence, on-chain transaction

monitoring, examiner-ready documentation, and the ongoing supervisory work the new ecosystem requires. The infrastructure investments that bank IT and compliance teams are making in AI for these purposes are not separate from the stablecoin program. They are how the stablecoin program will be operated and supervised at scale. A bank that builds AI capability for the supervisory side gets a compounding advantage as the activity scales.

References (deck-wide numbering):

[5] GENIUS Act, Pub. L. No. 119-27, July 18, 2025

[59] The White House, "Winning the Race: America's AI Action Plan," July 23, 2025,

<https://www.whitehouse.gov/releases/2025/07/white-house-unveils-americas-ai-action-plan/>

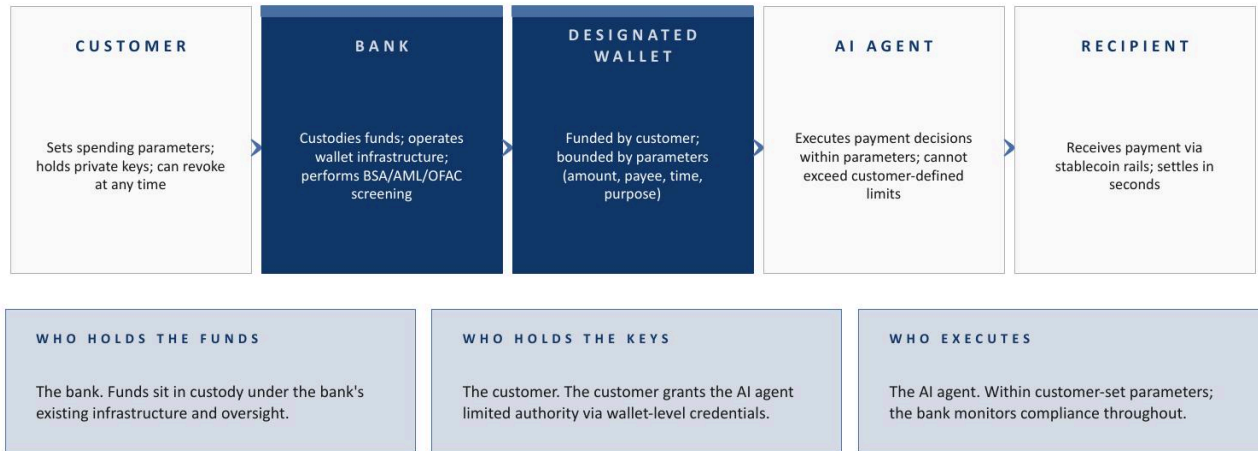
[60] U.S. Department of the Treasury, Statement from Secretary Scott Bessent on Enactment of the GENIUS Act, July 18, 2025, Press Release SB-0197, <https://home.treasury.gov/news/press-releases/sb0197>

[61] Senate Banking Committee, Confirmation Hearing of Kevin Warsh as Federal Reserve Chair, April 21, 2026; Senate vote 54-45 on May 13, 2026; sworn in May 22, 2026 (per CNBC, NPR, and C-SPAN coverage)

[63] Carter, Sandy, "Stablecoins Will Power AI Agents Before They Power Humans," Forbes, Digital Assets, March 13, 2026, <https://www.forbes.com/sites/digital-assets/2026/03/13/stablecoins-will-power-ai-agents-before-they-power-humans/>

AI Agents and Payment Stablecoins: How It Works

The AI-agent variant of the workflow on Slide 6: same plumbing, new actor.



The bank does not disappear. The bank becomes the trust anchor that makes agent-led commerce auditable.



The AI-agent variant of the standard workflow. Same plumbing, new actor.

Read the slide left to right. The customer (an individual or a company) sits at the front of the flow and sets the rules: how much can be spent, on what kinds of purchases, with what counterparties, in what time window. The bank holds the funds. The customer funds a designated wallet up to a defined cap. The AI agent has limited authority on that wallet: it can execute payments that fit the customer's parameters, but it cannot exceed them or change them. The recipient receives stablecoin and can redeem to USD through the bank.

A structural assumption built into the diagram: this is the bank-custodial model. The bank holds the funds in its own custody infrastructure, the customer holds the private keys at the wallet layer, and the AI agent executes within the customer's delegated authority. A competing structural model exists. In the self-custody model, the customer (and the agent) self-custody the wallet on-chain, with the bank in the role of fiat on-ramp and off-ramp only, not as funds custodian. The self-custody model is the architecture much of the crypto-native ecosystem is building toward.

The bank-custodial model is the regulated path for institutional customers, and it is the model on which examiner readiness, BSA/AML coverage, and consumer protection can be built. The self-custody model is operationally viable but pushes more of the supervisory perimeter outside the bank, and it creates harder questions about how a bank serves an agent-led customer whose principal asset never touches the bank's custody stack. The diagram above is the institutional-grade architecture. The alternative is real, and your customers will encounter it.

Customer control is critical. The customer can revoke the AI agent's authority at any time. The agent is a delegated capability, not a substitute principal.

Why this matters for banks: in this model, the bank isn't displaced. The bank becomes more important. You are the custody anchor, the AML gate, and the trust layer that makes the agent's actions auditable. The customer's AI agent is the new front-end.[63] The bank is the back-end.

Revenue and risk implications are on the next slide.

References (deck-wide numbering):

[63] Carter, Sandy, "Stablecoins Will Power AI Agents Before They Power Humans," Forbes, Digital Assets, March 13, 2026, <https://www.forbes.com/sites/digital-assets/2026/03/13/stablecoins-will-power-ai-agents-before-they-power-humans/>

Where Your Bank Fits in That Future

REVENUE OPPORTUNITIES

- \$ Custody fees on stablecoin balances held for customers
- \$ Wallet-as-a-service and API access fees for fintech vendors
- \$ Fiat on-ramp and off-ramp fees (USD ↔ stablecoin)
- \$ Issuer reserve deposit mandates as stable, long-term funding (via deposit-broker networks)
- \$ Transaction-monitoring and compliance-as-a-service for affiliates
- \$ Treasury management and intraday liquidity fees for corporate clients
- \$ Settlement services for AI-agent transactions

RISKS TO MANAGE

- ! Delegation parameter management: are customer-set limits enforceable?
- ! AML compliance on agent-driven transactions (no human at the keyboard)
- ! Operational risk if a customer's AI agent malfunctions
- ! Reputational risk if the customer's agent is exploited
- ! Kill-switch and recovery procedures: how fast can we stop a bad flow?
- ! Sub-custody risk if the bank uses a third-party blockchain custodian

In this future, your customer brings the AI agent. The bank is the trust anchor. The opportunity sets are familiar; the risks have new contours.



Slide 17 made the case that the bank stays central when an AI agent is the one transacting. This slide is the practical version of that: where the revenue comes from, and what the bank has to manage to earn it.

The revenue lines are ones a bank already understands, now attached to new technology: custody fees on balances held for customers, wallet and API access fees for fintech vendors, fiat on-ramp and off-ramp spreads, issuer reserve-deposit mandates as long-term funding, treasury and intraday-liquidity services, compliance and transaction-monitoring services for affiliates, and settlement for agent-driven transactions. The risks sit in familiar categories with new specifics: whether the customer's delegated spending limits are actually enforceable, AML coverage of transactions an agent initiates with no human at the keyboard, how fast the bank can hit a kill switch on a bad flow, reputational exposure if a customer's agent is exploited, and sub-custody risk when a third-party blockchain custodian is in the chain. None of it is exotic. It is the bank's existing risk disciplines applied to a customer who now transacts through software.

That points to the operational question behind the rest of the deck: which service providers will the bank rely on, and what should it ask them? Slide 19 takes that up.

McKinsey frames the future of money as three layers.[4] The first is payment stablecoins, issued by regulated nonbanks under the GENIUS Act to extend dollar access to non-bank parties and, eventually, to AI agents.[5][63] The second is tokenized bank deposits, issued by banks on their own blockchain infrastructure and used mainly for institutional settlement and treasury management. The third is central bank money: Federal Reserve balances and their equivalents in other jurisdictions, which settle between banks and back the system as a whole. The three layers are built to work together, not to replace one another. Where a bank lands depends on which layer it chooses to run, which layer its customers need, and how it connects them for those customers.

References (deck-wide numbering):

[4] McKinsey & Company, "Beyond stablecoins: The emerging architecture of on-chain money," 2026 (three-layer monetary stack thesis)

[5] GENIUS Act, Pub. L. No. 119-27, July 18, 2025

[63] Carter, Sandy, "Stablecoins Will Power AI Agents Before They Power Humans," Forbes, Digital Assets, March 13,

2026, <https://www.forbes.com/sites/digital-assets/2026/03/13/stablecoins-will-power-ai-agents-before-they-power-humans/>

You Don't Have One Vendor. You Have an Ecosystem.

Eight vendor archetypes: different use cases require different combinations.

<p>ISSUER</p> <p>Mints and redeems the stablecoin. Holds reserves. Primary peg responsibility.</p>	<p>WALLET / CUSTODIAN</p> <p>Holds private keys. Provides custody and storage of digital assets.</p>	<p>ON / OFF-RAMP</p> <p>Converts USD to stablecoin and back. KYC and AML at the fiat boundary.</p>	<p>BLOCKCHAIN INFRA</p> <p>Operates nodes and RPC endpoints. Connects bank systems to the chain.</p>
<p>VALIDATOR</p> <p>Confirms transactions on Proof-of-Stake networks. Uptime and stake distribution matter.</p>	<p>TOKENIZATION VENDOR</p> <p>Represents traditional assets (deposits, securities) on-chain.</p>	<p>SMART CONTRACT DEV</p> <p>Writes and maintains the token's code. Controls upgrade authority.</p>	<p>ANALYTICS / AML</p> <p>On-chain monitoring, sanctions screening, suspicious activity detection.</p>

A merchant settlement use case may need three of these. A cross-border use case may need five. Different combinations, different DD.



Eight vendor archetypes a bank will encounter in a stablecoin program.

There's no single "stablecoin vendor." When a bank engages with stablecoins, it engages with an ecosystem. Different use cases require different combinations of the eight archetypes.

Use-case to vendor-combination examples.

- Merchant settlement: issuer + analytics provider + on/off-ramp.
- Cross-border payments: issuer + validators (for finality) + analytics + smart-contract developer (for payment logic).
- Tokenized deposits: issuer + tokenization vendor + wallet/custodian.
- Custody-as-a-service for clients: issuer + wallet/custodian + analytics.

Each archetype carries a distinct primary risk:

- Reserve solvency for issuers.
- Key management for custodians.
- Concentration and downtime for validators.
- Smart-contract vulnerabilities for developers.
- AML coverage and detection-system quality for analytics providers.

The analytics archetype is the one that runs heavily on AI and machine-learning systems today. Chainalysis Reactor uses graph analytics combined with classification models to attribute on-chain addresses to entities, sanctions exposure, and behavioral risk typologies. TRM Labs operates a similar stack with its own attribution layer. Elliptic, Coin Metrics, and Merkle Science round out the U.S.-presence vendor set. The supervisory work a bank does on a stablecoin program is increasingly AI-mediated at the analytics layer, and that's one of the reasons the AML coverage question is more substantive than "does the vendor have an OFAC subscription." Banks should understand which detection systems are model-based, what the false-positive and false-negative profile is, and how the bank's BSA officer will consume and disposition the alerts those systems produce.

A one-size-fits-all checklist doesn't work for that reason, and the DD list on the next slide is organized by vendor type.

What to Ask Each Vendor Type

Five question categories. The answers that matter change by vendor archetype.

	ISSUER	CUSTODIAN	ON/OFF-RAMP	ANALYTICS
FINANCIAL	Reserve composition; monthly attestation	Balance-sheet strength; insurance coverage	Liquidity for redemptions	Revenue stability; runway
OPERATIONAL	Mint/burn controls; redemption SLA	HSM deployment; key rotation cadence	Throughput; failure modes	Uptime; alert latency
INFOSEC	Smart-contract audit; pause mechanism	Multi-sig; access controls	Encryption; tokenization of fiat data	Data protection; SOC 2
REGULATORY	GENIUS Act registration	Trust charter or BitLicense	Money transmitter licensing	OFAC SDN list coverage
GOVERNANCE	Board oversight of reserves	Operational risk committee	AML officer reporting line	Independent audit



The matrix that drives the DD Request List handout.

Five question categories across the four primary vendor archetypes a bank will encounter most often (issuer, custodian, on/off-ramp, analytics). The remaining four archetypes from slide 19 (blockchain infrastructure, validator, tokenization vendor, smart-contract developer) are covered in the full DD Request List companion document.

Reading the matrix:

Financial. Every vendor requires a financial-strength evaluation. The specific evidence differs by archetype. For an issuer, the financial-strength question is answered by the reserve attestation. For a custodian, it's the balance sheet and the crime/cyber insurance limits. For an on/off-ramp, it's liquidity for redemptions. For an analytics provider, it's revenue stability and operating runway.

Operational. For an issuer, the operational backbone is mint/burn controls and redemption SLAs. For a custodian, it's HSM deployment and key-rotation cadence. The question is the same in spirit (what is the daily operational rhythm), and the answer is vendor-specific.

InfoSec. Smart-contract audit and pause mechanism for issuers. Multi-signature controls and access management for custodians. Encryption and PII tokenization for on/off-ramps. SOC 2 Type II for analytics.

Regulatory. GENIUS Act registration and supervisory standing for issuers. For issuers under OCC jurisdiction, the OCC's proposed weekly and quarterly reporting forms (OMB Control No. 1557-NEW, proposed June 11, 2026) will, once final, give a bank a granular reserve-composition report (down to instrument level, with weighted average maturity and life) to request and verify in diligence, beyond the monthly attestation.[69] Trust charter or NYDFS BitLicense for custodians. Money transmitter licensing across each state of operation for on/off-ramps. OFAC SDN list coverage cadence and screening methodology for analytics providers.

Governance. Board oversight of reserves, independent risk committees, AML officer reporting line, independent audit. [65] The bank's diligence file should establish that each of these exists at the vendor.

The handout on the next slide builds this matrix out into the 50-item request list (companion document to this deck).

References (deck-wide numbering):

[65] Federal Reserve, FDIC, OCC, "Interagency Guidance on Third-Party Relationships: Risk Management," June 6, 2023

[69] Office of the Comptroller of the Currency, "Reporting Forms and Instructions for Permitted Payment Stablecoin Issuers Subject to the Jurisdiction of the Office of the Comptroller of the Currency," OMB Control No. 1557-NEW (OCC Bulletin 2026-24/2026-24a), June 11, 2026; proposed weekly and quarterly reporting forms implementing 12 CFR 15.14 under the OCC payment stablecoin proposed rule, 91 FR 10202 (March 2, 2026)

Take-Away: Stablecoin Vendor Due Diligence Request List

WHAT IS IN THE HANDOUT

50 items

Curated from a 145-item framework, trimmed for bank relevance

Organized by vendor type

Issuer, Custodian, On/Off-Ramp, Analytics: ask each only what's relevant

Acceptance criteria

What "good" looks like, in plain language, next to every item

Single-conversation length

Designed so a CEO can sit down with a vendor and work through it once

HOW TO USE IT

- 1 Identify which vendor types your use case requires (see Slide 19).
- 2 Pull only the relevant sections from the list (don't ask everything of every vendor).
- 3 Send the list to the prospective vendor before the first technical meeting.
- 4 Score each response against the acceptance criteria.
- 5 Document gaps and decide whether they are acceptable with mitigating controls.
- 6 Keep the completed list in your TPRM file. Examiners will ask for it.

Companion document to this deck. | Provided by Hickory & Co.



The Stablecoin Vendor Due Diligence Request List.

The list is a 50-item document, organized by vendor type, with acceptance criteria next to each item so the reviewer knows what good looks like. A bank does not need to ask every question of every vendor. The recommended workflow is to identify the vendor archetype from slide 19, pull only the applicable sections, send the list to the prospective vendor before the first technical meeting, score the responses against the acceptance criteria, and document the completed list in the institution's third-party risk management file. Examiners will ask for this kind of record in any future review of a digital-asset relationship.

The full institutional framework for due diligence on fintech partnerships, which may include stablecoin providers and tokenization third-parties, may extend beyond 150 items. For some institutions, that may be too much, but the risk of doing poor due diligence in an emerging space is high. The trimmed 50-item version provided with this presentation is a great starting point for stablecoin-specific vendors, organized by vendor type with acceptance criteria. Selecting the right service providers may provide a competitive advantage with so many banks and financial institutions competing for market share with payment stablecoin and tokenized products and services. Selecting the wrong service provider could be costly.

AI-assisted tooling is increasingly used to process, score, and refresh DDQ instruments at scale, especially for the ongoing monitoring updates examiners now expect on a quarterly cadence. The first DDQ response from a vendor can be handled manually. The ongoing operational cycle that follows (refresh of evidence, change-of-circumstance flags, re-scoring as regulations develop) is where AI assistants move from helpful to load-bearing. Institutions thinking about long-term posture should be thinking about who, or what, will keep this document current twelve months from now.

Examiners reading a TPRM file want to see that the bank knew what to ask, asked it, evaluated the responses, and made a documented decision.^[65] The Request List is the evidence that all four steps happened.

References (deck-wide numbering):

[65] Federal Reserve, FDIC, OCC, "Interagency Guidance on Third-Party Relationships: Risk Management," June 6, 2023

This Is a Board Conversation Before It's a Vendor Conversation

RISK APPETITE	EXPLICIT APPROVAL	ONGOING REPORTING
<p>Board defines the institution's willingness to engage with payment stablecoin vendor relationships. Maximum inherent risk; minimum control standard; concentration limits.</p>	<p>Not a consent agenda item. Not implicit. The board votes to engage with the activity: by name: and records it in minutes.</p>	<p>Quarterly dashboard from management to the board: vendor status, reserve attestations, monitoring findings, regulatory developments.</p>
<p>INTERAGENCY GUIDANCE, JUNE 2023</p> <p><i>"A banking organization's board of directors has ultimate responsibility for providing oversight for third-party risk management and holding management accountable. The board also provides clear guidance regarding acceptable risk appetite, approves appropriate policies, and ensures that appropriate procedures and practices have been established."</i></p>		



The board conversation precedes the vendor conversation.

The operational and legal authority to engage with a stablecoin vendor relationship flows from board approval. The Interagency Guidance on Third-Party Relationships: Risk Management, Section D.1 (Oversight and Accountability), states verbatim: "A banking organization's board of directors has ultimate responsibility for providing oversight for third-party risk management and holding management accountable. The board also provides clear guidance regarding acceptable risk appetite, approves appropriate policies, and ensures that appropriate procedures and practices have been established." [65] Examiners look for explicit board action when they review a stablecoin file.

What "explicit" means in this context. A named board vote on a named activity. Not a consent-agenda entry. Not a general delegation. Not language buried in a strategic plan. A real vote, with the activity identified, and the risk-appetite parameters documented in the minutes.

Risk-appetite parameters the board should set.

- Maximum inherent risk rating for any individual stablecoin vendor.
- Maximum residual risk rating across the portfolio.
- Concentration limit, stated as a maximum single-vendor exposure as a percentage of total stablecoin transaction volume or assets under custody (AUC).
- Minimum required control effectiveness rating before a vendor can be onboarded.
- Frequency of reporting back to the board on portfolio status, vendor changes, regulatory developments, and incidents.

References (deck-wide numbering):

[65] Federal Reserve, FDIC, OCC, "Interagency Guidance on Third-Party Relationships: Risk Management," June 6, 2023

The Five-Stage Vendor Lifecycle: Stablecoin-Overlaid



Same framework you already use for vendor management. New overlay applied at each stage.



The five-stage vendor lifecycle is the backbone of the Interagency Guidance on Third-Party Relationships: Risk Management, the regulatory anchor here.[65] Every bank operating today already uses some version of this framework for its third-party relationships.

What changes for stablecoins is the overlay at each stage: the additional questions and activities that account for the blockchain-specific risk dimensions.

Planning. In addition to the usual strategic-objective work, the board assesses whether the institution understands two technical realities: programmability (the token's behavior is defined by smart-contract code) and probabilistic settlement finality (on-chain settlement is final when enough blocks confirm, not at one specific moment). Most institutions don't have a working understanding of either at the start. That gap is itself a finding the planning stage should document, with a remediation path before the institution moves to diligence.

Due Diligence. The five standard DD categories (financial, operational, infosec, regulatory, governance) plus the stablecoin-specific overlays: reserve composition, smart-contract governance, key management, blockchain settlement characteristics, and on-chain AML coverage.

Contract. The standard SLAs plus stablecoin-specific provisions: smart-contract upgrade notification rights, key-rotation obligations on the vendor, chain-migration assistance, audit rights that extend to smart-contract code review.

Monitoring. Standard performance monitoring plus the monthly reserve attestation review, continuous on-chain transaction monitoring, smart-contract audit cycles, and validator performance metrics (where the vendor relationship involves a validator).

Termination. Standard data extraction plus key-migration procedures, chain-migration plans, smart-contract deactivation, customer notification, and asset-recovery steps.

References (deck-wide numbering):

[65] Federal Reserve, FDIC, OCC, "Interagency Guidance on Third-Party Relationships: Risk Management," June 6, 2023

Examiner Readiness: What Your File Has to Tell

Five documents. One story. The file should tell that story without you in the room.

01 RISK APPETITE MEMO

Board-approved statement of the institution's stablecoin risk appetite. Includes inherent risk ceiling, residual risk ceiling, concentration limits, control minimums. Annual reaffirmation.

02 DUE DILIGENCE RECORD

Completed DD checklist per vendor. Scored responses. Acceptance-criteria mapping. Documentation of any gaps and the mitigating controls accepted by management.

03 CONTRACT & EXHIBITS

Executed service agreement plus SLAs, audit rights, incident response, termination assistance, and stablecoin-specific provisions (smart-contract upgrade notice, key rotation, chain migration).

04 MONITORING LOG

Quarterly review packets. Monthly reserve attestation reviews. Incident reports and resolution memos. Regulatory-change tracking. Validator and analytics provider performance summaries.

05 TERMINATION PLAN

Documented exit procedure. Tested at least annually. Includes key migration, data extraction, customer notification, regulatory notification, and asset recovery steps.

If your file tells this story, your examiner reads it and moves on. If it doesn't, the conversation gets longer.



The file your bank assembles for the next exam.

Examiners read files. They want to see that the bank knew what to do, did it, and documented it. The five documents on this slide are the minimum viable file for a stablecoin vendor relationship.

Each document maps to a stage of the lifecycle from slide 23.

- Risk Appetite Memo → Planning stage
- Due Diligence Record → DD stage
- Contract & Exhibits → Contract stage
- Monitoring Log → Monitoring stage
- Termination Plan → Termination stage

The file should be understood as a stand-alone document. An examiner who has never met your management team should be able to read these five documents and understand:

- (a) what the bank decided to do,
- (b) why,
- (c) what controls are in place,
- (d) what the ongoing oversight looks like, and
- (e) what happens if the relationship ends.

AI-assisted tooling is increasingly used to assemble and maintain this five-document file as the regulatory landscape evolves. The five documents are not static once executed. The risk-appetite memo gets reaffirmed annually. The DD record gets refreshed quarterly. The monitoring log accumulates continuously. The termination plan gets re-tested at least annually. An institution that wants to keep this file examiner-ready twelve months after the relationship begins should build the capability into the operating stack now, rather than improvise the documentation under examination pressure later. The bank that runs the file with AI assistance is the bank that walks into its next exam without scrambling.

Take-Away: Stablecoin Readiness Self-Assessment

FIVE DIMENSIONS YOU WILL ASSESS

GOVERNANCE & STRATEGY

Has the board approved a digital-asset risk appetite? Do stablecoin activities appear in the strategic plan and in updated policies?

TREASURY & RESERVE CUSTODY

Could you hold issuer reserve deposits, directly or via a placement network? Is custody and liquidity treatment for digital assets defined?

TECHNOLOGY & BLOCKCHAIN OPERATIONS

Does your core processor support stablecoin operations? Is your BSA stack ready for on-chain monitoring and the 36-hour incident rule?

THIRD-PARTY & FOURTH-PARTY RISK

Does your third-party risk file structure cover digital-asset vendors? Do you track each vendor's fourth-party dependencies?

CUSTOMER-FACING & FRONTLINE

Are frontline staff trained on stablecoins? Do you have a board-approved customer-facing position and disclosures?

THREE MATURITY TIERS PER QUESTION

TIER 1 | NOT READY

Baseline. The dimension is not yet addressed.

Weight: 1 point per question

TIER 2 | FOUNDATIONAL

Foundational and operating, not yet examination-grade.

Weight: 2 points per question

TIER 3 | OPERATING

Examination-ready; documented and board-reviewed.

Weight: 3 points per question

Companion document to this deck. | Provided by Hickory & Co.



The second takeaway: the Stablecoin Readiness Self-Assessment for CEOs and directors.

The self-assessment is a 15-question instrument across five readiness dimensions:

- governance and strategy,
- treasury and reserve custody,
- technology and blockchain operations,
- third-party and fourth-party risk management, and
- customer-facing and frontline.

Three maturity tiers per question (Tier 1 Not Ready, Tier 2 Foundational, Tier 3 Operating). Score honestly.

The aggregated score places the institution in one of four readiness profiles (Examination-Ready, Foundational, Preparatory, Pre-Readiness) with a recommended next step for each.

The exercise takes about 15 minutes. It produces a defensible articulation of where the bank stands today and what the next 90 days of work look like. That's what the next board conversation needs.

Design rationale. This is a board-level tool, not a compliance officer's tool. The questions are answerable by a CEO without sub-specialist knowledge. The tier-based scoring gives a CEO a defensible articulation of where the bank stands, which is what the board conversation needs to move forward.

The two companion documents to this deck work together. The DD Request List is operational: it tells the institution what to ask a vendor. The Self-Assessment is strategic: it tells the institution where it stands. The pair gives a from-the-board-down view and a from-the-vendor-up view.

THE HOUR IN FIVE LINES

1

Payment stablecoins are payment, not investment.

100% reserves, 1:1 redemption, monthly attestations. Not Bitcoin.

2

Federal law now governs the rules of the road.

GENIUS Act is in force. CLARITY Act passed Senate Banking Committee May 2026, awaits Senate floor.

3

Production use cases already exist; the AI-agent variant is coming.

Cross-border, treasury, merchant settlement today. Bank-as-custody-anchor in an AI-agent future.

4

You don't have one vendor. You have an ecosystem.

Eight archetypes. Different use cases need different combinations. Different DD per archetype.

5

Examiners read the file. Board approval is the first page.

Risk appetite, DD record, contract, monitoring log, termination plan. Tell the story before they ask.

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Presentation summary. The five points worth taking away.

A payment stablecoin is a payment instrument, not an investment, and it is not Bitcoin. Under the GENIUS Act that means 100 percent reserves in cash and short-term U.S. Treasuries, redemption at par on demand, and a monthly independent attestation.[5]

The law is largely settled. The GENIUS Act has been on the books since July 18, 2025.[5] The CLARITY Act cleared Senate Banking 15-9 on May 14, 2026 and is waiting on a floor vote.[10] Its Title IV confirms that banks may use digital assets for payments, lending, custody, and trading (Section 401), and it closes passive yield on stablecoin balances while leaving activity- and transaction-based rewards open (Section 404, under joint SEC, CFTC, and Treasury rules).[10]

None of this is theoretical. Cross-border payments, treasury management, and merchant settlement run today, and tokenized bank deposits already move more than \$4 trillion a year, per McKinsey.[4] The agent-led version is what comes next, and in it the bank is the trust anchor and custodian, not the party being displaced.

There is no single stablecoin vendor to vet. A bank takes on an ecosystem: issuers, custodians, on/off-ramps, analytics providers. Diligence has to fit the archetype rather than run off one checklist.

The exam comes down to the file. It should tell the whole story, from the board's approval through monitoring to a tested exit.[65] The two companion documents with this deck are built to produce that record.

References (deck-wide numbering):

[4] McKinsey & Company, "Beyond stablecoins: The emerging architecture of on-chain money," 2026

[5] GENIUS Act, Pub. L. No. 119-27, July 18, 2025

[10] Digital Asset Market Clarity Act, Senate Banking Committee substitute, reported out 15-9 on May 14, 2026 (Title IV Sec. 401 Permissibility of Digital Asset Activities; Title IV Sec. 404 Prohibiting Interest and Yield on Payment Stablecoins). Section-by-Section, May 12, 2026, <https://www.banking.senate.gov/imo/media/doc/section-by-section.pdf>

[65] Federal Reserve, FDIC, OCC, "Interagency Guidance on Third-Party Relationships: Risk Management," June 6, 2023



Questions & Discussion

Contact information and an introduction to Hickory & Company are on the next slide.

Companion documents to this deck: [Stablecoin Vendor DD Request List](#) | [Stablecoin Readiness Self-Assessment](#)

Three questions come up in almost any stablecoin vendor review, and a bank should have an answer to each before an examiner asks.

What happens if the vendor fails? The contract is where this gets settled: recovery rights, customer-notification obligations, a key-migration procedure if custody moves to another provider, and a firm timeline for getting the bank's data back. A termination plan the bank has actually rehearsed holds up in an exam in a way a paper plan does not.



Does the BSA program need its own on-chain monitoring? It depends on the role the bank plays. Issuers and on/off-ramp providers already screen blockchain addresses against OFAC and AML lists around the clock; the bank's job is to consume those alerts and act on them, and to show how it would catch activity that never crosses its on/off-ramp at all, such as peer-to-peer transfers between self-custody wallets.

What will the next exam expect to see? For any digital-asset relationship, the five-document file from slide 24: a board-approved risk-appetite memo, the completed due-diligence record, the executed contract and exhibits, the ongoing monitoring log, and a tested termination plan.[65] The two companion documents with this deck produce the first two.

Contact details and a short introduction to Hickory and Company are on the next slide.

References (deck-wide numbering):

[65] Federal Reserve, FDIC, OCC, "Interagency Guidance on Third-Party Relationships: Risk Management," June 6, 2023



AI Lab for Regulated Industries

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CONTACT

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ABOUT HICKORY & COMPANY

Hickory & Company is the AI architecture firm for regulated industries: banks, fintechs, and credit unions. We design AI solutions your board can defend and your regulators can validate.

Two ways we work: (1) Hickory's AI platform and learning applications, built so users at any technical level can use them; (2) embedded engagements where Hickory's AI architects and compliance subject-matter experts build tailored solutions alongside your team.

Our solutions integrate with the systems already running across your institution (compliance, credit, finance, technology, data), not just one isolated corner of the business.



Hickory and Company is the AI architecture firm for regulated industries: banks, fintechs, and credit unions. We design AI solutions a board can defend and regulators can validate.

Two ways we work. The first is Hickory's AI platform and learning applications, built so users at any technical level can operate them. The second is embedded engagements where Hickory's AI architects and compliance subject-matter experts build tailored solutions alongside an institution's team.

Our solutions integrate with the systems already running across an institution: compliance, credit, finance, technology, data. Not one isolated corner of the business.

To discuss how Hickory and Company can support a payment stablecoin program, AI governance work, or broader regulated-industry AI architecture, contact Scott Grow at scott@hickoryai.com, at (801) 696-4769, or via LinkedIn at [linkedin.com/in/scottgrows](https://www.linkedin.com/in/scottgrows).

Presenter bio.

Scott is a regulatory compliance and Bank Secrecy Act (BSA) / Anti-Money Laundering (AML) professional with over 20 years of banking experience and specialized expertise in industrial banks, banking-as-a-service partnerships, and strategic fintech programs. Scott has held senior compliance and BSA positions at WebBank, Ally Bank, First Electronic Bank, SunWest Bank, FinWise Bank, Northwest Bank, and Stride Bank, and has consulted to community banks and fintech operators in compliance management system, BSA / AML, fair lending, and CFPB-readiness work.

Over the course of his career, Scott has supported, participated in, or led more than 18 regulatory examinations (FDIC Safety and Soundness, FDIC and CFPB Compliance, OCC), nearly 40 internal and external audits (Compliance Management System, BSA / AML, fair lending, vendor and strategic-partner reviews), and more than a dozen due diligence assessments of fintech and banking-as-a-service partners spanning consumer credit, point-of-sale and embedded lending, healthcare financing, small-business lending, and payments.

Scott has spoken at the Utah Bankers Association Compliance Conference on the integration of bank regulation with

blockchain and digital assets. He is a Certified Regulatory Compliance Manager (CRCM) and holds a Master of Science in Jurisprudence with an emphasis on financial services compliance.

Subject matter expertise includes:

- Compliance Management Systems (CMS).
- Fintech/bank sponsorship model and third-party lending.
- Bank Secrecy Act / Anti-Money Laundering compliance programs.
- Consumer protection laws and regulations.
- Risk assessment processes.
- Regulatory exam management.
- Compliance AI solutions.
- Independent audit.

Resources & Further Reading

PRIMARY LAW & REGULATION

- Guiding and Establishing National Innovation for U.S. Stablecoins Act, Pub. L. No. 119-27 (July 18, 2025)
- Digital Asset Market Clarity Act (H.R. 3633), Senate Banking Committee, May 14, 2026 (passed 15-9)
- OCC Interpretive Letters 1170, 1172, 1174, 1179, 1183, 1184 (2020-2025)
- FDIC FIL-7-2025 (March 28, 2025) and Federal Reserve withdrawal of SR 22-6 (April 24, 2025)
- Federal Reserve, Reserve Bank Payment Account Prototype RFI, 90 FR 60096 (Dec. 23, 2025), press release issued Dec. 19, 2025
- FDIC Proposed Rule, BSA and Sanctions Standards for FDIC-Supervised PPSIs, 12 CFR Part 350 (May 2026)

BANKING & POLICY COMMENTARY

- ABA Banking Journal, Senate Banking Committee advances Clarity Act, May 2026
- ABA Banking Journal, Tenth Circuit denies rehearing en banc in Custodia case, April 2026
- Bank Policy Institute, Yield-Bearing Stablecoins Can Destroy Deposits, 2024
- ICBA, Payment Stablecoins position statement, 2025-2026
- Latham & Watkins, The GENIUS Act of 2025: Stablecoin Legislation Adopted in the US
- Davis Wright Tremaine, Federal Reserve Proposes Skinny Master Accounts, January 2026

ADMINISTRATION & SUPERVISORY

- The White House, Fact Sheet: GENIUS Act Signing, July 18, 2025
- The White House, "Winning the Race: America's AI Action Plan," July 23, 2025
- Treasury Secretary Scott Bessent, Statement on GENIUS Act Enactment, July 18, 2025 (SB-0197)
- Interagency Guidance on Third-Party Relationships: Risk Management (FDIC/OCC/FRB), June 6, 2023
- Computer-Security Incident Notification Rule (FDIC), 12 CFR Part 304 Subpart C, effective April 1, 2022 (compliance date May 1, 2022); parallel OCC rule at 12 CFR Part 53; Federal Reserve at 12 CFR Part 225 Subpart N
- Senate Banking Committee, Annual Oversight of Wall Street Firms, S.Hrg. 118-496, December 6, 2023

ACADEMIC, EMPIRICAL & MARKET ANALYSIS

- Whited, Wu, Xiao, "Will CBDC Disintermediate Banks?" Journal of Finance, 2023
- Chiu et al., "Bank Market Power and CBDC," Journal of Political Economy, 2023
- Cong, "Stablecoins and Banking," Working Paper, December 7, 2025
- Charles River Associates, "Stablecoin Growth and Community Bank Deposits," July 2025
- Nigrinis (Legal Economics LLC), "The Lending Impact of Stablecoin-Induced Deposit Outflows," October 2025
- McKinsey, "Beyond stablecoins: The emerging architecture of on-chain money," 2026

Citations for every slide appear in the speaker notes of this deck.



The closing bibliography. Four categories grouping the deck-wide numbered references that appear on individual slides' speaker notes.

Primary Law and Regulation covers the statutes and federal-agency actions: GENIUS Act[5], the CLARITY Act draft[10], the six OCC Interpretive Letters[17][22][23][24][25][34], the FDIC and Federal Reserve withdrawals[35][36], the Reserve Bank Payment Account Prototype RFI[56], and the FDIC's proposed BSA rule for FDIC-supervised PPSIs[28].

Administration and Supervisory covers the White House and Treasury policy posture (the GENIUS Act Signing Fact Sheet[18], the AI Action Plan[59], Secretary Bessent's enactment statement[60]), the Interagency Third-Party Risk-Management Guidance[65], and the December 2023 Senate Banking Committee oversight hearing transcript[3] that opens slide 10.

Banking and Policy Commentary covers the trade-association positions and law-firm analyses: the ABA Banking Journal coverage[57], BPI[52] and ICBA[46] position statements, Latham & Watkins[29] and Davis Wright Tremaine[58] memos, and the joint trades letter[44].

Academic, Empirical, and Market Analysis covers the published sources behind the slide 12 empirical landscape: Whited, Wu, and Xiao[45]; Chiu et al.[51]; Cong[6]; Charles River Associates[7]; Nigrinis[9]; McKinsey[4]; and the CEA paper[50]. Plus Kundu, Muir, and Zhang[8] for the 2022-23 deposit-reallocation analog.

Every claim in this deck is sourced to the deck-wide numbered references that appear in the speaker notes of the slide on which the claim is made.