



U.S. HOUSE COMMITTEE ON FINANCIAL SERVICES
RANKING MEMBER MAXINE WATERS
STABLECOIN LEGISLATION
- SECTION-BY-SECTION -

Sec. 1. Short title; table of contents. (pp. 1-2)

- This Section establishes the short title and table of contents.

Sec. 2. Definitions. (pp. 2-8)

- This Section provides key definitions regarding appropriate Federal banking agency, appropriate Federal payment stablecoin regulator, Bank Secrecy Act, Board of Governors of the Federal Reserve System (Fed), Office of the Comptroller of the Currency (OCC), Federal Deposit Insurance Corporation (FDIC), National Credit Union Administration (NCUA), covered laws, digital asset, distributed ledger, Federal payment stablecoin regulators, insured depository institution (IDI), licensed nonbank entity, monetary value, national currency, payment stablecoin, payment stablecoin issuer, payment system, person, registered payment stablecoin issuer, state, state payment stablecoin regulator, state qualified payment stablecoin issuer, and subsidiary of an insured credit union.

Sec. 3. Requirement to be a payment stablecoin issuer. (pp. 8-48)

- This Section provides a legal framework for the issuance of payment stablecoins, modeled after the dual-banking system. Depository institution stablecoin issuers would be regulated by their primary Federal banking regulator. Nonbank stablecoin issuers would be licensed either with the Fed or a State with some Fed oversight (similar to state-chartered bank oversight). Those who violate this Section would be subject to civil or criminal penalties.
- Licensed Nonbank Stablecoin Issuers –
 - *Factors*: When evaluating a nonbank entity’s application to become a payment stablecoin issuer, the Fed will consider: the nonbank’s ability to comply with the Act and maintain reserves backing its stablecoins, financial resources, managerial expertise, governance, the benefit to the public (including to low- and moderate-income communities, low-income and underserved individuals, and minorities), and financial stability.
 - *Public Comments*: After receiving an application, the Fed will give notice to the public to allow for comments.
- Bank and Credit Union Stablecoin Issuers –
 - *Factors*: When evaluating an IDI’s application to become a payment stablecoin issuer, the appropriate Federal payment stablecoin regulator will consider: the IDI’s ability to comply with the Act and maintain reserves backing its stablecoins, financial resources, managerial expertise, governance, the benefit to the public (including to low- and moderate-income communities, low-income and underserved individuals, and minorities), and financial stability.
 - *Public Comments*: After receiving an application, the appropriate Federal payment stablecoin regulator will give notice to the public to allow for comments.
- Regulations and Orders –
 - *Authority of the Federal Regulators*: Federal regulators may individually issue orders and regulations to implement the Act, including establishing any anti-evasion protections or

- conditions. Rules for tailoring, reserves, redemptions, capital, liquidity, and risk management would be required to be issued jointly by the Fed, FDIC, OCC, and NCUA.
- *Supervision*: The appropriate stablecoin regulator will supervise licensed nonbank and IDI subsidiary stablecoin issuers. The Fed may request reports from, and examine, payment stablecoin issuers that are registered under the state framework regarding the issuer's compliance with this Act and covered laws.
 - *Privacy and Cybersecurity*: All issuers are subject to the Gramm-Leach-Bliley Act's (GLBA) data privacy and safeguards requirements, like other financial institutions.
 - *Reserves*: Each stablecoin issuer shall back the issuance of a stablecoin on a one-to-one basis, with reserves like cash and other similar instruments. There is a prohibition on rehypothecation of reserves. Issuers must disclose their reserve portfolio publicly monthly. Every two years, the regulators will review which assets can serve as reserve assets.
 - *Redemption*: Issuers must establish a process to ensure redemptions are made in a reasonable timeframe, not to exceed one day after the redemption request.
 - *Limitation on Activities*: A stablecoin issuer may only perform limited activities that directly support the work of issuing and redeeming payment stablecoins (e.g. issuers may not engage in lending).
 - *Mergers and Acquisitions*: No person may acquire control of a payment stablecoin issuer without approval for the appropriate Federal payment stablecoin regulator.
 - *Prohibition on Unauthorized Participation by Convicted Individual*: No person convicted of certain financial crimes may serve as an executive officer or control more than 5% of the shares of a payment stablecoin issuer. There will be a process to apply for a waiver from the prohibition.
 - *Capital, Liquidity, and Risk Management Standards*: The stablecoin regulators shall jointly establish capital requirements, liquidity requirements, and risk management requirements for payment stablecoin issuers.
 - *Risk Management for Contracted Services*: Entities that perform services for a payment stablecoin issuer will be subject to regulation and supervision by the appropriate Federal payment stablecoin regulator for those services.
 - *Consumer Protection for Wallets*: Custodial wallet providers shall protect the assets of each wallet customer. Assets of a wallet customer shall be segregated and not be commingled with the funds of the registered custodial wallet provider. The Federal payment stablecoin regulators may, in consultation with states, establish risk management and financial resource requirements for wallet providers. The Fed may require reporting, as well as recommend examinations and enforcement actions to state regulators under these standards. The Fed also has back-up examination and enforcement authority if a state regulator does not act. Self-custody wallets are excluded from these requirements.
 - *Treatment of Insolvent Payment Stablecoin Issuers*: In any insolvency proceeding for an issuer, those holding payment stablecoins issued by the issuer shall have priority over all other claims, other than for administrative expenses of the receiver.
 - *Resolution of a Payment Stablecoin Issuer*: Provides a process, though not a funding mechanism, for an orderly resolution of a payment stablecoin issuer outside of Bankruptcy.
 - *Treatment Under the Bank Secrecy Act and Sanctions Laws*: A stablecoin issuer shall be considered a financial institution under the Bank Secrecy Act and other Federal anti-money laundering (AML) laws. Treasury is directed to revise BSA/AML regulations to

- take into account the business model and risks of payment stablecoin issuers, if necessary. Payment stablecoin issuers will also be subject to sanctions laws.
- *Separation of Banking and Commerce*: A stablecoin issuer that is an IDI shall be considered a bank under the Bank Holding Company Act (BHCA). For registered payment stablecoin issuers and licensed nonbank entities, the Fed will issue regulations to prohibit a non-financial commercial company from controlling these entities, a requirement that affiliates of the entities only engage in financial activities, and restrictions on inter-affiliate transactions, similar to BHCA restrictions.
 - *Exclusion from Deposit Insurance*: Payment stablecoins will not be covered by Federal deposit insurance. Issuers and wallets must disclose this information.
 - *Effective Date*: The bill will take effect 120 days after regulations are issued, which are due 18 months after enactment of the bill. Regulators shall update Congress on the rulemaking 6 months after enactment.

Sec. 4. Registered payment stablecoin issuers. (pp. 48-61)

- This Section provides a framework for State qualified payment stablecoin issuers
- Consultation with State Approval Process –
 - The Fed may consult with State payment stablecoin regulators with respect to requirements for State issuers to be approved by the State regulator.
- Registration Requirement –
 - State issuers shall file a copy of their application with the Fed at the same time they file an application with the State regulator to issue payment stablecoins.
 - Not later than 45 days after they are approved by the State regulator, State issuers shall initiate the process to register with the Fed. The Fed may extend this deadline by 30 additional days.
 - There will be an opportunity for public comments.
 - State issuers have not completed the registration process until they have filed a complete application and the registration is effective.
 - The Fed shall issue rules describing what must be submitted by a State issuer in order to have a complete application.
 - Not later than 60 days after a State issuer files a registration statement, or 45 days after the close of the public comment, the Fed shall notify the State issuer if their application is not complete and shall describe changes the State issuer must make for the application to be deemed complete.
 - The Fed must consult with the State issuer’s State regulator when the State issuer seeks to register with the Fed. The Fed shall rely to the fullest extent possible on materials of the State regulator, if the materials a State issuer provides to the State regulator include all the materials required under this Section.
- Declination –
 - The registration of a State issuer is presumed effective unless the Fed declines the application using the same factors as under the IDI approval.
 - If the Fed is likely to decline a State issuer’s registration, the Fed shall provide a detailed written notice to the State issuer and State regulator, not later than 60 days after receiving a complete application. This notice shall include specific reasons the Fed is likely to decline and give the State issuer opportunity to cure. Such state issuer shall respond with the steps they have taken to cure.

- If the Fed determines that the State issuer did not adequately cure these issues, the Fed may decline the State issuer's registration by a majority vote of the Fed not later than 90 days after receiving the State issuer's response.
- If the Fed declines a registration, the Fed shall provide a detailed written notice including the Fed's findings, including the specific reasons the Fed declined the registration and steps the State issuer could take if they attempt to register again.
- Opportunity for Hearing and Appeal –
 - Not later than 30 days after a State issuer is given a final declination by the Fed, the State issuer may request an opportunity for a written or oral hearing before the Fed to contest the declination.
 - Not later than 60 days after the date of a hearing, and after consulting the State regulator, the Fed shall notify the State issuer and the State regulator of their final determination.
 - State issuers may then, not later than 30 days after the date of receipt of the final determination, bring an action in U.S. district court for an order requiring that the final determination be rescinded, under the arbitrary and capricious standard.
- Reapplication –
 - A State issuer may submit a new registration statement to the Fed no sooner than one year after the date of the Fed's final determination of declination of that issuer.
- Public Availability –
 - The Fed shall make each registration statement filed with the Fed under this Section available to the public, with any confidential information redacted.
- Supervision and Regulation –
 - State issuers are subject to coordinated supervision by the State regulator and the Fed.
 - The Fed shall issue rules to regulate State issuers consistent with requirements in Section 3(c), with no preemption of State licensing of State issuers.
 - The Fed shall, to the fullest extent possible, avoid duplication of examination, reporting, and request for information and rely on State examination reports and the reports and other information required under this Section, as well as reports and other supervisory information available to Federal or State agencies and public information.
 - The Fed shall to the greatest extent possible enter into agreements with State regulators, including memoranda of understanding, to administer this Section, coordinate with State regulators to supervise entities under this Act, and rely on reports from the State regulator.
 - A state may set additional standards for a State issuer operating within such State, provided they are not inconsistent with the standards established by the Fed.
- Enforcement and Coordination –
 - The Fed shall coordinate enforcement actions regarding State issuers with State regulators to the fullest extent possible.
 - The Fed may take enforcement actions against State issuers if the Fed gives advance notice to the State regulator.
- Transition –
 - State issuers that were approved by a State regulator before the enactment of this Act shall file a registration statement with the Fed after the effective date of the Act as if the issuer was approved by the State regulator on the effective date of the Act.
 - These State issuers shall be deemed to have registered with the Fed under this Section after submitting a complete application, unless the Fed declines such registration by a two-thirds vote of the Fed, on the basis that the factors listed in Section 3 have not been adequately addressed.

- Not later than 180 days after the enactment of this Act, the Fed shall consult with State regulators and provide guidance to those eligible for this transition to support a safe and sound transition to the regulatory framework established by this Act.

Sec. 5. Enforcement. (pp. 61-78)

- This Section provides a framework for enforcement of the Act.
- Suspension or Revocation of Registration –
 - An issuer may be prohibited from issuing payment stablecoins if they have violated this Act or covered laws, have violated a condition imposed on them by their Federal regulator, or engaged in an unsafe or unsound practice.
 - Regulators may also order issuers to cease and desist from such violations or practices and take affirmative action to correct conditions resulting from such violation or practice.
- Removal and Prohibition Authority –
 - Under certain circumstances, the Federal regulator can remove an institution-affiliated party of an issuer or prohibit further participation in the affairs of issuers.
- Safety and Soundness –
 - The Federal regulators also have authority if an issuer or affiliate is engaging in an unsafe or unsound practice.
- Other
 - Any person who has been removed from their position or office under this Section is prohibited from holding office in certain banking entities.
 - Outlines procedures for Federal regulators to provide notice, a hearing, and a decision to the issuer about the violation, as well as judicial review.
 - Outlines procedures for temporary cease-and-desist proceedings.
- Civil Money Penalties –
 - Any person who fails to obtain the applicable approval or registration under this Act shall be liable for a civil penalty of not more than \$100,000 per day.
 - An issuer that violates this Act or any regulation or condition imposed by their Federal regulator shall be liable for a civil penalty of up to \$100,000 per day.
 - An issuer who knowingly participations in a violation of this Act or regulation is liable for a civil penalty of up to an additional \$100,000 per day.
 - Outlines procedures for assessing and collecting these penalties by the Federal regulator.
 - The statute of limitations for this Act is six years beginning on the date of such violation.
 - This Section provides the definition of institution-affiliated party.

Sec. 6. Interoperability Standards. (pp. 78-79)

- This Section indicates that Federal regulators shall assess standards for issuers and service providers to promote compatibility and interoperability among payment stablecoin payment systems and between those systems and other payment systems.

Sec. 7. Moratorium of endogenously collateralized stablecoins. (pp. 79-80)

- While the bill arguably already prohibits endogenously collateralized stablecoins from being issues, this Section explicitly provides a two-year moratorium on issuing, creating, or originating an endogenously collateralized stablecoin not in existence on the date of enactment of this Act. These are defined as a digital asset that has been represented will be redeemed for a fixed amount of monetary value that relies solely on the value of another digital asset created or maintained by the same originator to maintain the fixed price.

- Study and Report by Treasury – Treasury, in consultation with the Fed, OCC, FDIC, and SEC, shall carry out a study and issue a report within one year on these stablecoins.

Sec. 8. Reservation of authority. (pp. 81-82)

- This Section preserves the authority of the Federal payment stablecoin regulators, Treasury, CFPB, SEC, and CFTC, as well as Federal antitrust laws with respect to any entity covered by this law (e.g. stablecoin issuers, wallet providers, broker-dealers, venues or exchanges that facilitate the trading or swapping of payment stablecoins, and market-makers or other intermediaries that maintain liquidity for payment stablecoins, etc.).
- This Section ensures that the Act and its regulations do not preempt State law, except when State law is in direct conflict with this Act, but only to the extent of that conflict.
- Rule of Construction –
 - This Act does not limit depository institutions, Federal and State credit unions, or trust companies from using distributed ledger technology for their books and records or providing custodial services for stablecoin reserves.
 - This Act should not limit IDIs from issuing tokenized deposits.

Sec. 9. Assessments. (pp. 82-83)

- This Section allows Federal regulators to charge issuers assessments that are equal to the total costs of carrying out the Act.

Sec. 10. Extraterritoriality. (pp. 83-84)

- This Section ensures it is unlawful for a person to offer or sell a payment stablecoin in the U.S. or to a person living in the U.S. unless it is issued by an issuer under this Act.
- Criminal Penalty –
 - Anyone who knowingly violates this section shall be fined not more than \$1,000,000 imprisoned for not more than 5 years, or both, for such violation.
 - Federal regulators will refer such matters to the Attorney General.
- Safe Harbor –
 - *International Reciprocity*: The Fed shall issue a safe harbor for foreign-based issuers that are subject to requirements in the issuer’s home country that are comparable to those in this Act.
 - Federal regulators may jointly issue regulations providing other safe harbors consistent with the Act.