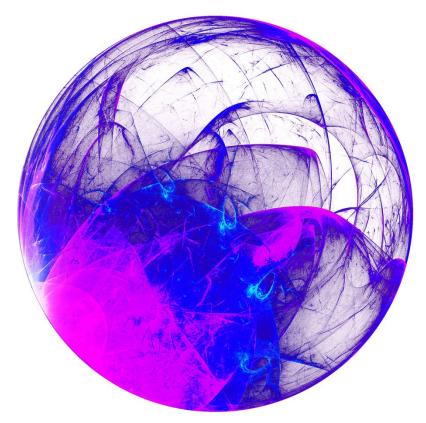
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NYDFS releases guidance for U.S. dollar-backed stablecoins

The new guidance¹ marks the first concrete stablecoin requirements imposed on entities regulated by the New York Department of Financial Services (NYDFS) since 2018, when the department first approved a BitLicensed entity to begin issuing stablecoins. Currently, there are 22 BitLicensed entities registered with NYDFS as of May 2022.² The letter focuses exclusively on standards for U.S. dollar-backed stablecoins (USD stablecoins) which accounts for 98% of all stablecoin transaction volume and sets requirements for redeemability, reserves, and attestations of those reserves.³ Amidst growing systemic risk concerns and recent market turmoil regarding stablecoins, this is the first guidance that concretely requires issuers to maintain separate reserves sufficient to fully back all outstanding stablecoin units in circulation.

Timing

Issuers are expected to come into compliance with the guidance, including reserve requirements, within three months except for the annual attestation requirement.

Redeemability

Except in circumstances deemed extraordinary, issuers of USD stablecoins must be able to full process and initiate the outgoing transfer of funds within 1-2 business days of receiving a request.

Reserves

USD stablecoins reserves must match the nominal value of stablecoins in circulation. The NYDFS guidance narrows the range of acceptable assets to:

- 1) Short term U.S. treasury bills,
- Reverse repurchase agreements fully collateralized by U.S. Treasury bills, notes, and/or bonds,
- 3) Government money-market funds, and
- 4) Deposit accounts at U.S. state or federally chartered depository institutions.

Attestation

The NYDFS guidance now requires a monthly examination by a licensed CPA of the issuing management's assertions on the:

- 1) End-of-day market value of the Reserve (with breakdowns by asset class),
- 2) End-of-day quantity of stablecoin units in circulation,
- 3) Whether the Reserve was adequate to fully back all outstanding stablecoin units, and
- Whether all DFS-imposed conditions (in previous section or otherwise) have been met.

An additional annual examination must be rendered on the issuing entity's control effectiveness, structures, and compliance procedures.

Regulatory Context

Various aspects of what is captured in this guidance is being discussed and debated at the Federal level. This includes the President's Working Group ("PWG") on Financial Markets, various legislative bills, and the Executive Order. Given existing crypto and digital asset activity is largely being regulated at the state level, the NYDFS continues to be leading on defining explicit regulatory requirements given perceived systemic risks. These reserve and attestation requirements may pose challenging for some issuers and limited trusts to adhere to within the 3-month timeframe.

NYDFS Stablecoin Guidance Self-Assessment Tool

Issuers are expected to be compliant with the below outlined redeemability, reserve, and audit requirements. We have provided a framework as an initial self-assessment tool to identify areas of risks or current gaps to be mitigated.

Guidance Criteria		Yes / No / N.A.
Redeemability Requirements		
Is the market value of the reserves at least equal to nominal value of all outstanding units of the stable end of each day?		
Is the issuer able to fully process and initiate the outransfer of funds within 1-2 business days of receive request?	utgoing ving a	
Reserve Requirements		
Are reserve assets segregated from proprietary as issuing entity?	sets of	
Are reserve assets held in custody with a U.S. state federally chartered depository institution or asset		
Do reserve assets consist of U.S. treasury bills acquissuer 3 months or less from maturities?	uired by	
Do reserve assets consist of government money m funds with DFS approved allocation caps?	narket	
Do reserve assets consist of reverse re-purchase a fully collateralized by U.S. treasury bills, U.S. treasurand bonds on overnight basis?	_	
Do reserve assets only consist of what are deemed allowable assets (listed above)?	d as	
Audit Requirements		
Is reserve subject to examination of management's at least once a month by a licensed CPA in the U.S.		
Is reserve subject to an annual examination by a lic in the U.S.?	ensed CPA	
Is reserve examination conducted by a CPA license U.S. and applying attestation standards of AICPA?	ed in the	

Endnotes

- 1. New York State Department of Financial Services (NYDFS), "Guidance on the Issuance of U.S. Dollar-Backed Stablecoins," June 8, 2022.
- 2. NYDFS, "Virtual Currency Businesses," accessed June 10, 2022.
- 3. CoinGecko, "Top USD Stablecoin Coins by Market Capitalization," accessed June 10, 2022.
- 4. Deloitte, "Stablecoin regulatory update and enhanced framework," February 2022.

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