BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D.C. 20551

DIVISION OF SUPERVISION
AND REGULATION

SR 23-7

August 8, 2023

TO THE OFFICER IN CHARGE OF SUPERVISION AND APPROPRIATE SUPERVISORY AND EXAMINATION STAFF AT EACH FEDERAL RESERVE BANK

SUBJECT: Creation of Novel Activities Supervision Program

Applicability: This letter applies to all banking organizations supervised by the Federal Reserve, including those with $10 billion or less in consolidated assets.

The Federal Reserve has established a Novel Activities Supervision Program (Program) to enhance the supervision of novel activities conducted by banking organizations supervised by the Federal Reserve. The Program will focus on novel activities related to crypto-assets, distributed ledger technology (DLT), and complex, technology-driven partnerships with nonbanks to deliver financial services to customers. The Program will be risk-focused and complement existing supervisory processes, strengthening the oversight of novel activities conducted by supervised banking organizations.

Background

Financial innovation supported by new technologies can benefit the U.S. economy and U.S. consumers by spurring competition, reducing costs, creating products that better meet customer needs, and extending the reach of financial services and products to those typically underserved. Innovation can also lead to rapid change in individual banks or in the financial system and generate novel manifestations of risks that can materially impact the safety and soundness of banking organizations. Given the novelty of these activities, they may create unique questions around their permissibility, may not be sufficiently addressed by existing supervisory approaches, and may raise concerns for the broader financial system.

Novel Activities Supervision Program

The Federal Reserve established the Program to ensure that the risks associated with innovation are appropriately addressed. The Program will enhance the supervision of novel activities conducted by supervised banking organizations, with a focus on the following activities:

- *Complex, technology-driven partnerships with non-banks to provide banking services* – Partnerships where a non-bank serves as a provider of banking products and services to end customers, usually involving technologies like application programming interfaces (APIs) that provide automated access to the bank's infrastructure.
- *Crypto-asset related activities* – Activities such as crypto-asset custody, crypto-collateralized lending, facilitating crypto-asset trading, and engaging in stablecoin/dollar token issuance or distribution.[1]
- *Projects that use DLT with the potential for significant impact on the financial system* – The exploration or use of DLT for various use cases such as issuance of dollar tokens and tokenization of securities or other assets.
- *Concentrated provision of banking services to crypto-asset-related entities and fintechs* – Banking organizations concentrated in providing traditional banking activities such as deposits, payments, and lending to crypto-asset-related entities and fintechs.

The Program will work in partnership with existing Federal Reserve supervisory teams to monitor and examine novel activities conducted by supervised banking organizations. Supervised entities engaging in novel activities will not be moved to a separate supervisory portfolio. Instead, the Program will work within existing supervisory portfolios and alongside existing supervisory teams. The Program will leverage current supervisory processes to the extent possible to maximize efficiency and minimize burden.

The Program will be risk-based, and the level and intensity of supervision will vary based on the level of engagement in novel activities by each supervised banking organization. The Federal Reserve will notify in writing those supervised banking organizations whose novel activities will be subject to examination through the Program. The Federal Reserve will periodically evaluate and update which banking organizations should be subject to the examination of novel activities through the Program, and banking organizations will be notified accordingly. In addition, as part of the Program, the Federal Reserve will routinely monitor supervised banking organizations that are exploring novel activities.

To help ensure the Program is informed by diverse perspectives and best practices in supervision and risk-management, it will be advised by a range of multidisciplinary leaders from around the Federal Reserve System. To stay abreast of emerging issues, technologies, and new products, the Program will engage broadly with external experts from academia and the banking, finance, and technology industries. The Program will incorporate insights and analysis from real-

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[1] See Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, and Office of the Comptroller of the Currency, "Joint Statement on Crypto-Asset Risks to Banking Organizations", January 3, 2023, and Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, and Office of the Comptroller of the Currency, "Joint Statement on Liquidity Risks to Banking Organizations Resulting from Crypto-Asset Market Vulnerabilities", February 23, 2023.

time data, market monitoring, horizontal exams, and proactive, intentional, and regular information exchange across portfolios, federal bank regulatory agencies, and other stakeholders.

Through this Program, the Federal Reserve will continue to build upon and enhance its technical expertise to better understand novel activities, the novel manifestations of risks of such activities, and appropriate controls to manage such risks. In addition to enhancing the supervision of risks associated with banking organizations engaging in novel activities, the Program will also inform the development of supervisory approaches and guidance for banking organizations engaging in novel activities, as warranted.

The Program will help ensure that regulation and supervision allow for innovations that improve access to and the delivery of financial services, while also safeguarding bank customers, banking organizations, and financial stability. The Program will also operate in keeping with the principle that banking organizations are neither prohibited nor discouraged from providing banking services to customers of any specific class or type, as permitted by law or regulation.

Reserve Banks are asked to distribute this letter to the supervised banking organizations in their districts and to appropriate supervisory staff. In addition, questions regarding this letter may be sent via the Board's public website.[2]

Michael S. Gibson

Director

Division of Supervision and Regulation

[2] See http://www.federalreserve.gov/apps/contactus/feedback.aspx.