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Fed Ends Specialized Crypto Bank Oversight

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The U.S. Federal Reserve has announced it will dismantle its “Novel Activities Supervision Program,” a regulatory initiative created in 2023 to closely monitor banks’ engagement with cryptocurrencies, stablecoins, and other emerging financial technologies.

The decision reverses the specialized oversight framework established under Supervisory Letter SR 23-7, returning banks’ crypto, distributed ledger technology (DLT), and fintech partnerships to standard supervision. The Fed indicated that the program had achieved its primary goal of strengthening understanding of digital asset risks and related bank risk-management practices.

The initiative, launched in August 2023, was intended to manage risk in areas including crypto-asset custody, crypto-collateralized lending, and traditional banking services for crypto firms and fintech companies. It also applied heightened scrutiny to stablecoin issuance and transactions, requiring pre-approval and proof of robust risk controls. At the time, officials said the framework would help address questions about the permissibility of certain activities while mitigating vulnerabilities such as money laundering, cyberattacks, and potential bank runs.

The program combined expertise from digital-asset specialists and traditional bank examiners to provide a more technical approach to oversight. However, some lawmakers who support digital assets criticized the initiative as a component of what they called "Operation Chokepoint 2.0," a campaign they allege sought to limit banking access for politically disfavored industries, including cryptocurrency firms.

Senator Cynthia Lummis (R-WY), a long-time advocate for blockchain and digital currencies, welcomed the Fed's decision. On social media, she described it as "a big win for putting an end to Operation Chokepoint 2.0," adding that it represented progress toward creating a level playing field for crypto businesses.

The policy change comes amid heightened political pressure surrounding federal oversight of cryptocurrencies. Former President Donald Trump, a vocal supporter of digital assets, has repeatedly criticized what he calls "debanking" by federal regulators and has pledged to remove programs he views as hostile to the crypto industry.

While the Fed did not explicitly cite political pressure in its announcement, its statement indicated that lessons learned from the program would now be integrated into the central bank's standard supervisory procedures. The elimination of SR 23-7 removes the extra layer of oversight that applied to banks with complex fintech partnerships, stablecoin operations, or concentrated crypto service offerings. Going forward, such activities will be reviewed under the same risk-based framework applied to all banking operations.

The Fed emphasized that expectations for safety, soundness, and regulatory compliance remain in effect. Banks will continue to face strict requirements for risk management and approvals before engaging with digital assets.

This regulatory shift aligns with broader changes under the Trump administration. In March, Trump signed an executive order aimed at establishing a more supportive federal framework for digital assets. Following this, the Federal Deposit Insurance Corporation (FDIC) removed “reputational risk” as a supervisory factor, a policy that had previously limited banking relationships with crypto firms. The FDIC also clarified that banks could engage in crypto-related activities without prior approval if they maintained existing safety and compliance standards.

In July, the Fed, FDIC, and Office of the Comptroller of the Currency issued joint guidance reminding banks offering crypto custody to maintain strong risk management, safeguard cryptographic keys, comply with federal and state laws, and implement protections against cyber threats. On June 24, the Fed formally removed “reputational risk” from its oversight framework, committing to more transparent and consistent supervision.

Industry leaders have praised the regulatory adjustments. Rob Nichols, president of the American Bankers Association, called the changes “a long-overdue step” allowing banks to make business decisions based on market conditions rather than regulatory opinion.

Congress has also taken steps to clarify the federal approach. In July, Trump signed the GENIUS Act, creating a federally regulated framework for stablecoins. Additionally, he issued an executive order encouraging regulators to remove barriers preventing retirement plans from offering alternative assets, including cryptocurrencies. If implemented, this policy could integrate digital assets directly into mainstream retirement savings, representing a significant shift for U.S. investors.