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FRB Rescinds Novel Activities Supervision Program and Vice Chair Bowman Speaks on Embracing Innovation

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Last week, (almost two years to the day of when it was **issued**), the Federal Reserve Board ("FRB") **rescinded** SR Letter 23-7 regarding the creation of the Novel Activities Supervision Program. The FRB stated that supervision of certain crypto and fintech activities is now better understood and supervision of those activities will be integrated back into the standard supervisory process.

In a **speech** at the Wyoming Blockchain Symposium on August 19, FRB Vice Chair of Supervision Michelle Bowman noted that outreach by supervisors is important and "[w]e should build an examination workforce that requires skills development and informed judgement to address evolving business preferences, practices and expectations. In a step toward doing so, last week, I announced that the Fed's "novel supervision" activities would be reintegrated into our Reserve Bank examination staff. This will reestablish the role of the normal supervisory process in monitoring banks' so-called "novel activities."

Vice Chair Bowman's August 19 speech was also dedicated to a discussion of reframing the regulatory mindset. She noted that bank regulators and supervisors are traditionally by nature resistant to changes, but that "[d]espite this past inertia, change is coming." She noted bank regulators are taking steps to create a framework for digital assets and the adoption of blockchain technology within the banking system. Vice Chair Bowman went on and stated "To this point, I have noted several use cases that have already been adopted or are in development within the banking system, but I would also like to encourage the industry to engage with regulators to help us understand blockchain and its potential to solve other problems. What is the value proposition of any new product or approach? What problem is it intended to address? And how should regulators consider both the risks and benefits, so we can provide a path to allow its use within the banking system?"

Vice Chair Bowman also noted the concerted removal of reputation risk as a consideration in exams by the FRB, OCC, and FDIC should help facilitate advancing development in digital assets. In essence, she seems to be sending the message that the FRB is open for business in consideration of adoption of digital assets in the banking system.