FEDERAL MONEY SERVICES BUSINESS ASSOCIATION

OFFICE OF THE PRESIDENT

QUEENS, NY 11354

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Mark Gordon

Governor of Wyoming | Chair, Stable Token Commission

(Via Email to governor@wyo.gov & stabletoken@wyo.gov)

200 West 24th Street

Cheyenne, WY 82002-0010

Re: Governance, Disclosure, and Public-Trust Safeguards for Wyoming's State Stable Token ("FRNT")

Governor Gordon:

I write in my capacity as President and Chair of the Federal Money Services Business Association ("FedMSB"), a national trade association representing Money Services Businesses ("MSBs") and the compliance, payments, and settlement infrastructure on which lawful retail and commercial flows depend. FedMSB supports responsible innovation in public finance and payment rails. That support, however, is contingent on a principle that is both legal and prudential: when a financial instrument is issued under the imprimatur of a sovereign—or marketed in a manner that reasonably invites the public to infer sovereign backing—the issuer must meet a heightened duty of candor, operational resilience, and ex ante governance discipline.

The concerns summarized below reflect that principle. They are not objections to experimentation per se; they are objections to a foreseeable mismatch between (i) the *reputational and signaling power* of the State of Wyoming and (ii) the *enforceable legal obligations* and *operational mechanics* available to token holders in stress conditions. In modern

payments, it is precisely this mismatch—between perceived protection and actual recourse—that produces the most acute consumer harm, litigation risk, and institutional reputational damage.

I. The Central Issue: Public Signaling Versus Legal Recourse

"State-issued" is not a neutral label. To ordinary households, small businesses, and even many sophisticated intermediaries, it naturally implies some measure of state-level assurance—whether in the form of explicit guarantee, implicit backstop, or at minimum a governance regime that prevents adverse selection and protects redemption at par. If, however, the governing framework instead (a) limits the State's obligations, (b) restricts remedies, or (c) places meaningful discretion in opaque administrative processes, then the program risks functioning as a credibility transfer mechanism: the public reputation of Wyoming is leveraged at issuance, while legal responsibility and practical recourse are attenuated at redemption.

That structure would create not only consumer-protection exposure, but also classic public-law concerns: the use of public authority as a marketing signal without correspondingly robust public accountability.

II. Where Stable Instruments Fail: Redemption Plumbing, Not Reserve Narratives

Public discussion of stable instruments often overemphasizes the composition of reserves and underemphasizes the mechanics of redemption. Yet, as industry experience repeatedly confirms, "reserves do not redeem themselves." Par maintenance depends on operational continuity: banking rails, cut-off times, compliance holds, sanctions screening, concentration risk among custodians and settlement agents, and the availability of contingency liquidity when counterparties withdraw or channels seize.

Accordingly, the most salient question for any state-associated stable token is not simply *what* assets are held, but *how* redemption is executed—especially under conditions of stress and heightened compliance friction. A framework that is silent on redemption performance

obligations, escalation paths, and contingency arrangements invites precisely the kind of run dynamics that state association is presumed to prevent.

III. Terminology Risk: "Licensed Service Provider" and the Hazard of Regulatory Implication

I am also concerned about the potential for public misunderstanding around the term "Licensed Service Provider" ("LSP"). In U.S. financial services, "licensed" carries a strong implication of formal regulatory authorization and ongoing supervisory oversight. If "LSP" in this context denotes approval by the Commission, contractual qualification, or programmatic onboarding—rather than licensure in the conventional sense—then the label itself may be misleading to reasonable users and counterparties.

Misleading terminology is not a mere communications issue. It can become evidence of reliance and misrepresentation in private litigation; it can trigger consumer-protection scrutiny; and it can create a regulatory "false comfort" that induces intermediaries to underprice risk.

IV. Recommended Preconditions to Scale: Five Concrete Safeguards

FedMSB respectfully urges the Commission to adopt the following as *preconditions* to any broad distribution, major listing, or public marketing campaign. Each item is designed to reduce legal ambiguity, mitigate run risk, and preserve the State's reputational capital.

1) Plain-English, Prominent Disclosures of Backing, Liability, and Recourse

Publish, and require downstream distributors to present, a short-form disclosure that states clearly and conspicuously:

- Whether FRNT is backed by the full faith and credit of Wyoming (and if not, an explicit statement that it is not).
- The identity of the obligor(s) responsible for redemption at par.
- The holder's legal rights, dispute mechanisms, and limitations on remedies.

- The circumstances under which redemption may be delayed, suspended, or limited—and the process for reinstatement.

These disclosures should be standardized, version-controlled, and mandatory across all interfaces (official websites, wallets, integrations, and exchange listing materials). The objective is not legal insulation through fine print; it is the prevention of foreseeable confusion.

2) A Public Redemption and Stress-Operations Protocol ("Redemption Playbook")

Publish a redemption protocol specifying:

- Redemption windows, settlement timelines, cut-off times, and failure-handling procedures.
- The compliance and sanctions-screening workflow, including escalation and error-correction (e.g., false positives).
- Quantified performance metrics to be reported regularly (average redemption time, failure rates, reasons for failure).
- Contingency arrangements: secondary/backup banking rails, alternative settlement agents, and operational continuity triggers.

Without this, the State risks being judged—fairly or not—by the worst day, not the average day.

3) Reserve, Operations, and Loss-Absorption: Clear Priority of Claims and Separation

If program economics contemplate using reserve yield to fund operations, compliance, cybersecurity, or vendor costs, the legal architecture must specify:

- How reserve assets are segregated from operating accounts (and under what legal form—trust, custodial segregation, bankruptcy-remote vehicle, etc.).
- The priority of claims in shortfall scenarios and the mechanism for addressing deficits.
- Whether any capital buffer exists and, if so, its governance and replenishment rules.

This is the difference between a stable-value instrument with credible par redemption and a self-referential funding loop whose stability depends on uninterrupted market calm.

4) LSP Definition and Verifiable Supervision: A Public Register with Legal Precision

The Commission should publish:

- A precise definition of "LSP" and a plain statement distinguishing Commission approval from licensure in the conventional regulatory sense.
- A public register of LSPs with verifiable information on applicable state/federal registrations, AML program responsibilities, scope of authorized activities, audit cadence, and termination triggers.
- Ongoing supervisory expectations, including incident reporting, cybersecurity controls, and consumer complaint handling.

5) Independent Assurance and High-Frequency Transparency

At minimum:

- Independent attestations on reserves with a cadence and scope commensurate with systemic sensitivity (and clarity on what is—and is not—being attested).
- Regular publication of redemption-performance data and operational risk indicators.
- Mandatory post-incident reports for any material disruption, with corrective action plans and timelines.

Transparency is not a substitute for prudence. But in state-associated instruments, it is essential to preserving legitimacy.

V. A Constructive Path Forward

FedMSB would welcome the opportunity to contribute technical expertise and industry best practices, including tabletop stress exercises and review of disclosure language and redemption protocols. We also encourage the Commission to convene a structured public session—paired

with a technical working session for regulated intermediaries—to vet these safeguards and publish a concrete implementation timetable.

I offer these recommendations with respect for Wyoming's innovation ambitions and with equal respect for a more durable asset: the public trust. Programs that trade on sovereign credibility must be engineered to survive not only ordinary operations but also the predictable frictions of compliance, banking access, and market stress. The costs of under-specification are not theoretical; they are borne by users, intermediaries, and ultimately the State's reputation.

I appreciate your consideration and would be pleased to arrange a working discussion at your convenience.

Respectfully,

Van Young

President & Chair

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Cc:

1. State Financial Regulators (via the Conference of State Bank Supervisors (CSBS))
2. Consumer Financial Protection Bureau (CFPB)
3. U.S. Department of the Treasury
4. The United States Congress