FIRSTBANK

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July 8, 2021

Ann E. Misback
Board of Governors of the Federal Reserve
20th Street and Constitution Ave NW
Washington, DC 20551
Via Electronic Submission

Re: Proposed Guidelines for Evaluating Account and Services Requests, Docket No. OP-1747, 86 FR 25865 (May 11, 2021)

Dear Ms. Misback:

Thank you for the opportunity to provide comments on the proposed guidelines to evaluate requests for accounts and services at Federal Reserve Banks. This letter outlines the viewpoints of FirstBank, headquartered in Lakewood, Colorado. FirstBank is a member of the Kansas City Federal Reserve Bank with over $26 billion in assets, and operates 110 bank branches throughout Colorado, Arizona, and California.

In addition to providing feedback on each of the six principles outlined in the Federal Reserve's Account Access Guidelines, we have included four recommendations addressing critical issues we believe warrant consideration by the Board. Those recommendations follow and are in **bold font** for quick reference.

1. **Consumer Protection**

We recommend the Federal Reserve verify that any new applicant who will be providing services to consumers has an effective consumer protection program in place prior to final approval of their application. Current members of the Federal Reserve System place a high level of emphasis on, and take pride in, making consumer protection a priority. Upholding that standard is extremely important from a reputational standpoint for both the Federal Reserve and for all current Federal Reserve members. If an applicant will be providing services to consumers, the applicant should demonstrate their ability to comply with all consumer protections, including those outlined in Regulation E.

2. **Coordinated Evaluation and Approval Process**

We recommend a coordinated and centralized committee be formed to evaluate and decision each application for Reserve Bank accounts and services. Furthermore, we recommend this evaluation committee be Board-led. While your proposed guidelines indicate a desire to allow decisions regarding individual access be at the discretion of the individual Reserve Banks, this approach could lead to inconsistent decisioning and the introduction of undue risk to the Federal Reserve System. Having a Board of Governors led committee make these important decisions provides for system-wide perspectives to be heard and the varied expertise of each committee member considered.

3. **Independent Risk Assessments**

We recommend the Federal Reserve require an independent risk assessment as to the applicant's ability to comply with payment system standards and meet the financial stability mandate. The ability of the Federal Reserve to independently access an entity's risk profile is important from a reputational and consistency standpoint. Accepting an applicant's risk assessment from the applicant's state or federal supervisor should not be considered sufficient.

4. **Frequency of Federal Supervision**

We recommend the Federal Reserve review all participants with access to the payment system on a regular basis and recommend that this review not be delegated to another federal or state agency. We do not believe a one-time review by the Federal Reserve of an applicant's operating standards (during the application review process) is sufficient. For applicants whose primary supervisor is any entity other than the Federal Reserve, we recommend the Federal Reserve provide ongoing supervision to ensure the expected high operating standards continue to be met.

Below are comments on each of the six principles outlined in the Federal Reserve's Account Access Guidelines.

Principle 1: Eligibility

Eligible entities should have a legal basis for operations and be subject to Regulation

We agree all eligible entities should have a legal basis for their operations and their purpose should be clear and transparent. All eligible entities for Federal Reserve accounts and payment services should be subject to commensurate regulation and supervision, on an ongoing basis, to protect all payment system participants and the payment system itself.

Eligible entities should be subject to consistent approval standards and decisioned by a coordinated evaluation committee

The decision to allow access to Reserve Bank accounts and services will have consequences for numerous stakeholders including the Federal Reserve System, financial institutions, the broader economy, and in many cases, consumers. Ensuring each new application, regardless of the Federal Reserve District in which the application is submitted, is decisioned based upon a uniform evaluation policy is imperative. Please refer to the comments included in recommendation 2 above (Coordinated Evaluation and Approval Process).

Principle 2: Risks to the Reserve Bank

Eligible entities should be evaluated based on the risks associated with their operating model

Banks operate under seasoned and tested regulatory frameworks appropriate for their business models, considering risks inherent to deposit taking, lending and other banking activities. Under the proposed guidelines, bank regulatory framework would serve as the baseline for assessing the risk profile of entities requesting access to the payments system. However, additional risk monitoring may be prudent.

All entities legally eligible to hold accounts at the Reserve Bank should be evaluated to ensure their charters are consistent with their business models. Additionally, their business models should be evaluated to ensure they would not introduce unique risks. Additional review and risk mitigation may be appropriate in certain cases. We encourage the Board to consider additional standards and processes for entities commensurate with the risks the entities pose, and ensure all eligible entities have robust risk management standards and adequate stress testing processes.

Eligible entities should maintain capital and liquidity levels comparable to federally insured banks

We recommend a more precise definition of “sufficient liquid resources” and more specificity with respect to the process by which an entity must identify and measure its liquidity risk. Moreover, deposit insurance and access to the Federal Reserve’s discount window act as stabilizing factors during a liquidity or other stress for many eligible entities. Because not all entities that legally qualify for access to the Reserve Bank accounts and services are federally insured or have access to the discount window, the final guidelines should clarify the liquidity requirements necessary to compensate for the lack of access to these supports.

Eligible entities should be required to submit quarterly audited and publicly disclosed financial statements

Currently, banks and bank holding companies are required to file quarterly Call Reports, FR Y-9 and other regulatory reports that help supervisors, market participants and other stakeholder’s assess the financial condition of an institution. Pursuant to the Federal Credit Union Act, credit unions file similar "Reports of Condition" that are also referred to as Call Reports. To provide all interested parties the ability to assess an eligible entity's financial condition and ability to settle and process payments, we recommend that the Federal Reserve make public, audited financial statements a condition of access to a master account. Robust and frequent reporting of key financial data, including capital levels and composition of high-quality liquid assets, would help ensure that firms do not create undue risks to the Reserve Banks, the banking industry, or the broader financial system.

Eligible entities should demonstrate robust cybersecurity and business continuity practices

All eligible entities should demonstrate operational resilience as it relates to cybersecurity risks and business continuity. Recent incidents of ransomware attacks and operational disruptions support the need for heightened cybersecurity, operational resilience, and business continuity practices.

Principle 3: Risks to the Payment System

Risks to the Payment System are similar to the risks to the Reserve Bank, which are addressed in Principle 2 above

Principle 4: Risks to the U.S. Financial System

Eligible entities should be subject to strong safety and soundness standards

Allowing entities that are not held to the same standards and regulations as federally insured banks to access Reserve Bank accounts and services could increase the risk to the entire financial system, especially in times of economic or financial market stress. Potential strategies to mitigate this risk include ongoing supervision, strong safety and soundness standards, and enhanced risk-based reviews, commensurate with the risks of an applicant's business model. Well defined capital and liquidity positions would help mitigate some of the risk. For example, requiring a leverage ratio comparable to that expected of banks would be a step towards lessening this risk.

Principle 5: Prevention of Financial Crimes

Eligible entities should have a sound compliance program that includes robust internal controls, independent auditing, compliance training, and senior management commitment

We recommend the Federal Reserve require each applicant have a robust anti-money laundering program to ensure they are not facilitating activities such as money laundering, terrorism financing, fraud, cybercrimes, or other illegal activities.

Entities that engage in emerging financial transactions such as cryptocurrency custody and related payments services should be held to a risk management standard commensurate with their risk profile. Each eligible entity must be able to identify the counterparties in all transactions and identify the country of origin of all transactions, especially when facilitating cryptocurrency transactions.

Principle 6: Monetary Policy

We recommend the Federal Reserve consider the potential impacts of new entrants and deny access to any applicant it believes would impair the Board's ability to implement monetary policy

Careful consideration should be given to the impact a large number of new entrants with access to accounts and services at the Federal Reserve Bank could have on the global level of U.S. dollars held in banks. As more entities facilitate transactions that shift consumer's investments from U.S. dollars held in banks to emerging asset types (i.e. cryptocurrencies), the level of deposits held in all U.S. banks could decline. A potential outcome could be that when the Board desires to implement targeted interest rate changes, the impact those changes can have on the economy compared to historical outcomes could be lessened. This scenario could have a material impact on the Fed's ability to implement effective monetary policy as an economic stabilizer in uncertain economic conditions.

Conclusion

We appreciate the Board's receptiveness to public comments on the Federal Reserve Account Access Guidelines. Consideration of the recommendations outlined in this letter could assist with the implementation of a uniform and consistent approval process, and best practices for the ongoing evaluation of new entities who gain access to Reserve Bank accounts and services. The integrity of the financial system depends on a rigorous and consistent process for approving and monitoring entities with master accounts with the Federal Reserve. As was pointed out in the business case for the implementation of FedNow, the Federal Reserve plays an instrumental role in the United States payment system in normal times, and during turbulent times. The liquidity provided to the system as checks were sitting on planes post September 11, 2001 is a good example. The Federal Reserve's confidence in doing so was largely the result of rigorous approval and supervision processes associated with the financial institutions in the Federal Reserve payment ecosystem. Any degradation of this process would not enable the Federal Reserve to play such a key role in the future. Hence the reason we recommend the Federal Reserve take the steps outlined in this letter when approving Master Accounts. If you have questions concerning this letter, please call me at (303) 235-1350.

Sincerely,

James A. Reuter, Chief Executive Officer
FirstBank Holding Company