



July 10, 2021

Ann E. Misback
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, DC 20551

Re: Docket No. OP-1747 Proposed Guidelines for Evaluating Account and Services Requests

Dear Ms. Misback:

The Association for Digital Asset Markets (ADAM) appreciates the opportunity to comment on the Board of Governors of the Federal Reserve System (Board) proposed Account Access Guidelines to evaluate requests for accounts and services at Federal Reserve Banks (Reserve Banks). ADAM applauds the Board's steps towards transparency on a process that is typically not public. The recent emergence of blockchain-related technologies has catalyzed a dramatic increase in digital assets, and consequently, the formation of flourishing digital asset marketplaces requiring financial services. As such, access to the Federal Reserve System's Master Account is essential for financial institutions participating in the payment system to support further advancement of the digital assets marketplace.

We are writing to promote our views of a safe, effective, efficient, inclusive, and innovative payment system. Such a system will promote innovation in the U.S., avoid a shadow banking sector and promote the overall stability of the financial system, prevent the offshoring of financial services firms, and advance the understanding of the potential of blockchain technology.

About ADAM

ADAM is a private, non-profit, membership-based association of firms operating in the digital asset markets and is a standards-setting body and self-governing association¹ committed to

¹ ADAM is a broad-based industry group that includes a wide variety of market participants, including trading platforms, custodians, investors, asset managers, traders, liquidity providers, and brokers. Its members are firms that are active in digital asset markets or seek to participate in those markets. ADAM members include: Anchorage Digital, N.A.; BitGo; BitOoda; BlockFi; BTIG; CMT Digital; Cumberland; Dunamis Trading; Eventus Systems; Fireblocks; FTX.com; FTX.us; Galaxy Digital; Genesis; Grayscale; GSR; HRT; Multicoïn Capital; Oasis Pro Markets; Parataxis; Paxos; Sarson Funds; Solidus Capital; Symbiont; WisdomTree; and XBTO. ADAM law firm partners include: Morgan Lewis; DLA Piper; and DLx Law.

promoting market integrity and best practices. ADAM works with leading financial firms, entrepreneurs, and regulators to develop industry best practices that facilitate fair and orderly digital asset markets. In this vein, ADAM’s objectives are to: (1) protect market participants from fraud and manipulation; (2) provide clear standards for efficient trading, custody, and the clearing and settlement of digital assets; (3) encourage professionalism and ethical conduct by market participants; and (4) increase transparency and provide information to the public and governments about digital asset markets. In furtherance of this, ADAM released a principles-based Code of Conduct (the “Code”)² in late 2019 that sets certain standards of professional conduct for ADAM members. In particular, the Code addresses the following areas:

- Compliance and Risk Management
- Market Ethics
- Conflicts of Interest
- Transparency and Fairness
- Market Integrity
- Custody
- Information Security and Business Continuity
- Anti-Money Laundering and Countering the Finance of Terrorism

Every ADAM member agrees to adhere to the Code of Conduct. The goal is to bring professional standards into the nascent but rapidly-growing digital asset markets, to develop trust in those markets so that they can flourish.

Our members are at the cutting edge of innovation through the use of new technologies, such as blockchain. However, they recognize that proper regulation and conduct is essential to their businesses and to the development of a sustainable marketplace and the public trust. They believe that a diverse financial ecosystem is a source of strength, and they aim to use their technology to find new ways of reaching consumers and work within the current financial system to improve efficiencies.³

ADAM and its members are committed to working with lawmakers and regulators to promote innovation with responsible guardrails that expand financial services. We welcome a clear regulatory picture, because our members seek full compliance. As such, we are encouraged by recent actions in the regulatory space, including this request by the Board for comment on the Account Access Guidelines.

Overview of the Account Access Guidelines

² The Code is available at <http://www.theadam.io/code/>.

³ Bloomberg-Paxos Joins Bank of America’s Settlement Network: <https://www.bloomberg.com/news/articles/2021-05-17/bank-of-america-joins-paxos-blockchain-stock-settlement-network>.

As we understand, the Board developed the Account Access Guidelines to provide six principles to the Reserve Banks to allow for consistent guidelines for review of payment system applications. Ultimately, access decisions will remain at the discretion of the individual Reserve Banks. We intend to use the remainder of this letter to provide comment on the six principles – Eligibility and Operations, Risk to Reserve Bank, Risk to Payment System, Risk to Financial System, Risk to Economy, and Monetary Policy—and provide high-level commentary on the proposal’s policy goals.

Principle 1: Eligibility and Operations

ADAM welcomes the definition of eligibility and operations but believes that this principle could be expanded to provide a greater sense of purpose and direction. As noted in the proposed Account Access Guidelines, direct access to a master account and payment services is limited to certain types of banks. As such, all eligible institutions are subject to state and/or federal prudential regulation and supervision. Accordingly, ADAM believes that it is best practice to allow all eligible financial institutions to access the Payment System directly because access will deliver a materially stronger, more resilient, flexible, and innovative U.S. payment system. The Board’s policy goals— promoting the safety and soundness of the banking system; effectively implementing monetary policy; promoting financial stability; protecting consumers; and promoting a safe, effective, efficient, inclusive and innovative payment system— are not served by limiting access to the Payment System and the Board having rejection powers over other chartering authorities.

Access to a Federal Reserve System Master Account is essential for U.S. financial institutions to receive the most basic banking and payment financial services. Without direct access, firms (and even entire sectors) will be unable to provide fast, reliable payment services to their customers. This disadvantage will become even more pronounced when FedNow is launched. Fast and secure fiat payments remain critical to well-functioning digital asset markets and a large segment of the U.S. digital asset markets currently relies on just a few banks to meet these needs. Direct access for all eligible firms, subject to appropriate risk oversight (as described below) would serve to increase the resilience of digital asset markets and the related fiat currency payments activities. Additionally, the lack of a path to a Master Account discourages responsible parties from undertaking the arduous journey of becoming a chartered financial institution and subjecting themselves to regulation and supervision, which ultimately protects the U.S. financial system and consumers.

Many of the responsible actors in the digital asset space have received limited purpose banking charters from the states or the OCC at the federal level. These banks are, or will be, subject to the current regulatory and supervisory frameworks applicable to their operations and have a long-standing history in the U.S.

ADAM believes that by bringing validly chartered digital asset firms further into the U.S. federal banking system, consumers will be better protected, the market will be more secure and offer better products, and the digital asset firms will benefit from the Federal Reserve Systems’ extensive supervisory experience and expertise.

Principle 2: Risk to Reserve Bank

ADAM supports the current risk management practices the Board has in place. Some of these practices include the monitoring of the condition of institutions with accounts and services on an ongoing basis using supervisory ratings, capitalization data, and supplementary information. The same risk management practices can continue to be employed to assure that the provision of an account and services to an institution does not present or create undue credit, operational, settlement, cyber, or other risks to the Federal Reserve System.

As stated previously, ADAM believes that bringing validly chartered firms further into the U.S. federal banking system and subjecting them to the Board's risk management practices will allow the firms and the customers they serve to benefit from the Board's extensive supervisory experience and expertise.

Principle 3: Risk to Payment System

ADAM supports the principle of evaluation of risk to the payment system and believes that the Board and Reserve Banks should follow the Federal Reserve Policy on Payment System Risk, as amended effective March 19, 2021.⁴ Further, the Board should provide a transparent and uniformly applied risk management framework that:

- A. Identifies risks clearly and sets sound risk-management objectives;
- B. Establishes sound governance arrangements to oversee the risk-management framework;
- C. Establishes clear and appropriate rules and procedures to carry out the risk-management objectives; and
- D. Employs the resources necessary to achieve the system's risk-management objectives and implement effectively its rules and procedures.

ADAM believes that further integration of validly chartered digital asset firms into the Federal Reserve's payment system will reduce the reliance on the current system of correspondent banking relationships, which introduces more single points of failure and in turn a greater risk to the payment system.

Principle 4: Risk to Financial System

ADAM supports the principle that the provision of a Master Account and the associated services to an institution should not create an undue risk to the stability of the U.S. financial system. ADAM believes that the expansion of access to the Master Account System will provide the Federal Reserve System more insights to validly chartered and supervised state trust institutions, currently engaging in activities outside of the Federal Reserve System's scope of oversight.

Institutions applying for a Master Account with the Federal Reserve System already receive direct supervision by their regulators of jurisdiction, who are essential to ensure that participants do not create undue risk to the system. Monitoring and assessing the financial stability of direct

⁴ Federal Reserve Policy on Payment System Risk:
https://www.federalreserve.gov/paymentsystems/files/psr_policy.pdf

participants by the Board promotes the safety and soundness of the banking system. Information gathered directly from participants while monitoring the functioning of the payment system will assure that the Board has better insights into the sector.

Principle 5: Risk to Economy

ADAM supports the principle that the provision of a Master Account and the associated services to an institution should not create an undue risk to the overall economy. For reasons stated above, ADAM believes that broad access for eligible institutions will lead more firms to become regulated banks, and as a result to adopt more stringent compliance and risk management programs to assure that their services do not facilitate activities such as money laundering, terrorism financing, fraud, cybercrimes, or other illicit activity. Thus, direct supervision and regular examination by banking authorities will provide better controls and will assure safe and sound operation in accordance with supervisory and regulatory frameworks.

Principle 6: Monetary Policy

ADAM supports the principle that the provision of a Master Account and the associated services to an institution should not impede monetary policy. ADAM believes that the expansion of access to an eligible digital asset-focused firm innovating in payment and settlement could serve as a bridge to aid payment efficiency and monetary policy implementation up to and following the implementation of FedNow and the potential development of a U.S. Central Bank Digital Currency (CBDC).

As was clearly shown during the COVID-19 crisis, access to electronic payment systems is essential for the operations of the U.S. financial system and economy. Financial institutions relied on and were able to offer additional services to the public by partnering with payment-focused companies that did not have access to the payment system but were the primary service provider to consumers. A further inclusive payment system will afford the Board the ability to gather firsthand data about use and needs of consumers and small businesses and to respond consistently and predictably to changes in economic conditions and the economic outlook in the U.S. As such, the Board should ensure it is building a regulated bridge to Distributed Ledger Technology (DLT) payment systems (including but not limited to use and issuance of CBDC) and is able to participate in DLT based payment networks so that it can positively implement U.S. monetary policy on these systems.

Policy Goals

ADAM is supportive of the six principles proposed the Account Access Guidelines. As described above, ADAM believes that further inclusion of validly chartered firms serving the digital asset space into the Federal Reserve Master Account Network will advance the six principles. In addition to the six principles, ADAM suggests that the Board should consider three additional principles when evaluating access to its payments system: transparency, international competitiveness, and learning.

Proposed Principle: Transparency

ADAM believes that the Board should promote transparency as a leading principle. ADAM suggests the establishment of a clear time frame from the Reserve Banks for the review and processing of submitted applications. Pending applications leave institutions and their customers in a state of limbo, hampering long term business planning and development. A concrete timeline for the review process will increase business certainty and foster innovation. Additionally, if an application to the Payments Network is declined, ADAM welcomes a clear outline of why the account was denied. Such a process will ensure the foster the integrity and accessibility of U.S. payment systems is upheld and provide the denied firms the appropriate feedback to correct their business models and provide precedent of the various factors to be considered by future applicants.

Proposed Principle: International Competitiveness

ADAM believes the Board should incorporate International Competitiveness into its evaluation of access to its payment system. The U.S. boasts leading financial markets and a robust payments network that allows the U.S. currency to serve as the world's reserve currency. The U.S. should seek to maintain this position and encourage innovation domestically.

More generally, the Board should consider international competitiveness in the payments space in a three-pronged approach. Firstly, the Board should carefully study other decisions by other central banks in payments decisions. One key example is the Bank of England's provision of Direct Access to its Real Time Gross Settlement Accounts.⁵ The Board should encourage the study of such decisions and deem if similar actions would benefit the U.S. financial system. Secondly, the Board should ensure that its policies promote competitiveness internationally and do not entice leading technology firms to move offshore away from the U.S. market. Competitive policies include the promotion of competition in the marketplace and accessibility of the services. Lastly, the Board should lead international standards setting. As international bodies such as the Bank for International Settlements or the Financial Stability Board consider the future of the global digital payments space, the Board should seek to lead in thought leadership and standard setting, so many of the principles adopted in these international settings demonstrate American values.⁶

Proposed Principle: Learning

The implementation and understanding of blockchain technology is still in its early stages. The Board should encourage firms utilizing blockchain technology in payments efficiency to seek access to a Federal Reserve Master Account. As the Board develops instant payments technology such as FedNow and a potential CBDC, the Board will benefit from having blockchain

⁵ Bank of England, "Bank of England Extends Direct Access to RTGS Accounts to Non-bank Payment Service Providers." Press Release, July 2017. Available at <https://www.bankofengland.co.uk/-/media/boe/files/news/2017/july/boe-extends-direct-access-to-rtgs-accounts-to-non-bank-payment-service-providers.pdf>

⁶ Bank for International Settlements, "Central Bank Payments in the Digital Age" <https://www.bis.org/publ/arpdf/ar2020e3.pdf>

technology payment focused financial institutions in its payments network. This will afford the Board the ability to gather more information about the technologies use and application.

ADAM appreciates the Board's considerations of the comment above. ADAM and its members stand ready to answer any questions on the industry or its Code that the Board may have.

Sincerely,

A handwritten signature in black ink that reads "Michelle Bond". The signature is written in a cursive, flowing style.

Michelle Bond
Chief Executive Officer
Association for Digital Asset Markets (ADAM)