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July 12, 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 to Evaluate Requests for Accounts and Services at Federal Reserve Banks

Dear Ms. Misback:

The Vermont Department of Financial Regulation (“DFR”) submits these comments in response to the Board of Governors of the Federal Reserve System’s (the “Board”) proposed guidelines (the “Proposed Guidelines”) to evaluate requests for accounts and services at Federal Reserve Banks (“Reserve Banks”).

The Board specifically requested comments on three aspects of the proposed guidance:

- (1) Do the proposed account access guidelines address all the risks that would be relevant to the Federal Reserve’s policy goals?
- (2) Does the level of specificity in each principle provide sufficient clarity and transparency about how the Reserve Banks will evaluate requests?
- (3) Do the proposed account access guidelines support responsible financial innovation?

DFR’s comments address each of these questions.

(1) Do the proposed account access guidelines address all the risks that would be relevant to the Federal Reserve’s policy goals?

Proposed Principle No. 4 seeks to address circumstances where provision of an account and services to an institution would create undue risk to the stability of the U.S. financial system. But the Proposed Guidelines and related guidance do not provide examples of such circumstances. While DFR recognizes that the Board cannot identify all risks or circumstances that may impact the stability of the financial system, state regulators may better assist in assessing an institution’s risk with specific examples of the risks and circumstances at the



institutional level that the Board determines would impact the stability of the financial system as a whole, particularly for small, nontraditional state charters.

(2) Does the level of specificity in each principle provide sufficient clarity and transparency about how the Reserve Banks will evaluate requests?

The Proposed Guidelines provide more transparency and clarity than currently exists about how Reserve Banks evaluate requests for account access. Nevertheless, the level of specificity is still insufficient for state regulators and applicants to confidently assess the likelihood that a Reserve Bank will grant an innovative applicant's request. The state chartering and assessment process is extensive and demanding. Applicants and state regulators each devote significant time and resources to the process. It is not in the interests of applicants, state regulators, or the Reserve Banks for state regulators to approve or devote resources to charter applicants that are unlikely to be granted account access. We encourage the Board to expand the Proposed Guidelines to require further coordination and communication between Reserve Banks and state regulators.

Transparency

DFR applauds the Board's efforts to increase clarity and transparency after a recent experience with a Vermont charter applicant seeking a federal reserve account. DFR recently received a Vermont charter application for an institution that would have offered enhancements to the current banking system by filling a gap in correspondent banking services. Obtaining federal reserve account access was critical to this applicant's proposed business and operations. In this particular experience, neither the process nor the determination was transparent to the applicant or to DFR. After months of outreach to the Federal Reserve Bank of Boston, and making several changes and adjustments to its application in response to shifting guidance, the applicant merely received a suggestion that its proposed application was not "sufficient." The applicant subsequently discontinued its effort to obtain account access and withdrew its Vermont charter application.

This kind of masked decision making is not useful to state regulators or industry. DFR had no more information on the Reserve Bank's decision-making process than the applicant, making it difficult to offer guidance or to assess the probability of an applicant obtaining an account. And even with the benefit of the Proposed Guidelines, it would still have been difficult for DFR to provide meaningful guidance or assess this applicant's likelihood of successfully obtaining account access.

DFR encourages the Board to include formal communication with state regulators in the process to facilitate better coordination. If states were able to discuss a Reserve Bank's expectations in regard to specific applicants and were provided more explanation about decisions, this would assist states with their own assessments of an application when determining whether to issue a charter.

Clarity

The guidelines reference the state's application review in each of the six principles but do not include substantive guidance on what the state's review should entail or how a Reserve Bank



will use it. While DFR agrees that the state's application review should consider all relevant factors regarding innovative charters seeking federal reserve account access, the proposed guidelines do not provide the necessary clarity. DFR encourages the Board to include substantive guidance for the states' application review process to ensure consistency with the Reserve Banks' expectations regarding state charters seeking account access. At a minimum, DFR encourages the Board to include more specific guidance on what constitutes a disqualifier from the perspective of the Board and Reserve Banks.

(3) Do the proposed account access guidelines support responsible financial innovation?

The DFR encourages the Board to include information on how the states may work with the Board and Reserve Banks to establish application review standards and techniques for monitoring nontraditional and innovative charters in a manner that focuses on the specific challenges created by each particular model. DFR, as part of its mission, encourages innovative business models that will bring jobs to the state, and accordingly would welcome communication and interaction with the Board and Reserve Banks to ensure we analyze and approve institutions in a consistent manner with the Reserve Banks. The state regulatory system has proven its ability to detect, correct, and supervise problem institutions and would welcome an opportunity to work with the Board and Reserve Banks to ensure a regulated environment sufficient to encompass new emerging models and technologies in financial services.

Sincerely,



Molly Dillon

Deputy Commissioner of Banking

Vermont Department of Financial Regulation

