

February 17, 2022

The Honorable Jerome Powell
Chairman
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC, 20551

Re: Evaluating Account and Services Requests

Dear Chairman Powell:

In May 2021, the Board of Governors of the Federal Reserve System (“Board”) issued a request for comment, Proposed Guidelines for Evaluating Account and Services Requests (Docket No. OP-1747) seeking industry input on how to establish uniform guidance to assist Federal Reserve Banks as they evaluate applications for access to Federal Reserve Bank accounts and services. Currently, the Federal Reserve Banks make independent decisions regarding applications for master accounts without a consistent set of standards across all regions. This is a serious concern because unconventional and under-regulated entities may bring unknown risks if granted access to the payment system. The American Bankers Association (“ABA”) supported this proposal and on July 12, 2021, submitted [comments](#) with other trade associations strongly recommending uniform and standardized guidelines for access in order to ensure the safety of the payment system.

The Board has yet to publish a standardized approach for Federal Reserve Banks to evaluate applicants for master accounts and services.

It has come to our attention that two Special Purpose Depository Institutions (“SPDI”) chartered banks from Wyoming were recently designated as “eligible” to apply for a master account. These applicants will hold public deposits but will not be federally insured nor subject to FDIC oversight. These entities, their parent companies, and affiliates will also avoid oversight by the Federal Reserve under the Bank Holding Company Act (“BHCA”). Additionally, these applications raise concerns related to broader issues of financial policy, because their business models focus on cryptocurrency transactions and custody of digital assets. Novel business models may pose different risks than conventional bank regulatory frameworks.

The Board has recognized that standardizing the application process is essential to ensure consistent risk assessments across all Federal Reserve Banks. The Board’s concern about introducing risk to the payment system manifested in the May 2021 proposal seeking public input on the evaluation process. While the Board has not made any public announcement regarding the evaluation process, we understand that the Federal Reserve has determined, after more than a year of review that two uninsured and non-federally regulated state-chartered banks are eligible to apply for master accounts.

Eligibility for a master account does not guarantee an account will be granted, but this is a very significant step toward allowing these companies to access public payments infrastructure on unequal regulatory footing. To ensure stakeholders are clear on the existing eligibility criteria, which these decisions have called into question, we request a detailed accounting of the evaluation process conducted by the Federal Reserve Bank of Kansas City and any other parties involved in the review including other Federal Reserve Banks and/or the Board, including the determination that these institutions were “eligible” to apply for master accounts, as well as the risk assessments performed related to capital and liquidity, cryptocurrency volatility, and the lack of FDIC or BHCA oversight.

Further, given the public process the Board began to ensure a uniform approach to these applications, we reiterate our strong recommendation that these two and all other novel applications for master accounts be considered only after the new review guidelines are finalized and made public.

The Federal Reserve payment system is efficient and secure because all participants operate under similar regulatory oversight. The Board should ensure that this continues.

Thank you for your consideration and we look forward to discussing this with you in greater detail.

Sincerely,

A handwritten signature in black ink that reads "BOB NICHOLF". The signature is written in a cursive, slightly stylized font.

cc: Federal Reserve Board of Governors