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Proposal and Comment Information

Title: Regulatory Capital Rules: Regulatory Capital and Standardized Approach for Risk-weighted Assets, R-1888

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Submitter Information

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****Subject: Comment on Bank Capital Treatment of Bitcoin****

To the Federal Reserve, OCC, and FDIC:

I urge the agencies not to adopt a blunt capital treatment for Bitcoin that would effectively exclude Bitcoin activity from the regulated U.S. banking system.

Bitcoin is not risk-free. It has short-term volatility, custody risk, cybersecurity risk, liquidity risk, operational risk, and concentration risk. Banks offering Bitcoin services should manage those risks through audited custody, secure key management, prudent exposure limits, cybersecurity standards, strong controls, and supervision.

But serious regulation requires accurate risk classification. A blanket 1,250% risk weight is not accurate regulation. It is a de facto penalty.

Risk is not the same as volatility. Volatility means substantial price movement, positive or negative. Prudential risk should mean the potential for actual loss, impairment, default, operational failure, liquidity failure, or another adverse outcome. Bitcoin is volatile over short horizons, and that should be addressed through market-risk capital. But volatility alone should not substitute for complete risk analysis.

Bitcoin is fundamentally different from issuer-backed tokens, stablecoins, DeFi instruments, lending platforms, and speculative crypto schemes. It has no issuer, borrower, management team, coupon, redemption promise, reserve portfolio, or defaulting counterparty. It is an issuerless, decentralized capital asset with transparent supply, open-source validation, public settlement history, and continuous market pricing.

Those facts do not eliminate risk, but they change its nature. Bitcoin does not present the issuer, counterparty, default, redemption, maturity-transformation, or reserve-portfolio risks present in many other instruments. Its main risks are market, custody, cybersecurity, operational, liquidity, hedging, and concentration risks, which can be measured, supervised, limited, and capitalized directly.

A serious framework should recognize that assets carry different risks over different time horizons. Fiat currencies may be stable over short periods, but they can carry long-term purchasing-power risk and policy-discretion risk. Long-duration savers, businesses, and investors may rationally seek harder monetary assets. Regulators should not treat short-term volatility as the only monetary or financial risk that matters.

The Basel 1,250% risk weight fails this distinction. It treats Bitcoin as though volatility alone justifies the harshest capital treatment, while ignoring the absence of issuer, borrower, redemption, and default risk. That is not risk-sensitive regulation. It lumps Bitcoin together with materially different instruments.

At an 8% minimum capital ratio, a 1,250% risk weight can require capital equal to the full value of a bank's Bitcoin exposure before buffers. That does not make the system safer. It tells banks that Bitcoin custody, settlement, treasury, lending, payments, market-making, hedging, and client services are not worth offering.

That is the wrong outcome. If regulated U.S. banks are prevented from serving Bitcoin users and businesses, the activity will not disappear. It will move to less regulated venues, offshore institutions, fragmented workarounds, and less transparent providers. That would reduce consumer protection, supervisory visibility, market integrity, and American leadership.

The agencies should want Bitcoin activity inside the regulated banking system, where it can be examined, controlled, audited, and supervised. Driving it out does not reduce risk. It relocates risk to places where regulators have less visibility and authority.

I respectfully urge the agencies to reject any blanket 1,250% treatment and adopt a risk-based framework that treats direct price exposure under market-risk capital rules; applies operational-risk standards to custody, cybersecurity, key management, controls, and governance; recognizes hedging, segregation, insurance, collateralization, and other mitigants; imposes prudent inventory and concentration limits; distinguishes Bitcoin from materially different cryptoassets; and recognizes that volatility, default risk, counterparty risk, operational risk, liquidity risk, and long-term purchasing-power risk are distinct categories that should not be collapsed into one punitive charge.

Bitcoin should not receive special treatment. It should receive accurate treatment.

A punitive blanket risk weight would not protect the public. It would make regulated bank Bitcoin services commercially irrational and push activity away from supervised institutions. That is not sound banking policy or good supervision.

The United States should not force Bitcoin financial infrastructure offshore or into less regulated platforms. The agencies should adopt rules that measure Bitcoin's actual risks, require banks to manage those risks responsibly, and allow Bitcoin activity inside the regulated U.S. banking system