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Proposal and Comment Information

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Submitter Information

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To the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation: I am submitting this comment because I believe U.S. bank capital rules should treat Bitcoin according to its actual risks—not through a blanket penalty that makes regulated bank involvement economically impractical. Having followed Bitcoin's market dynamics closely, I see both its power-law behavior and its very real risks as reasons for precise, evidence-based regulation rather than a one-size-fits-all punitive approach. Bitcoin is not risk-free. Its price trajectory and returns exhibit classic power-law characteristics: fat-tailed distributions in which extreme movements (both upward and downward) occur with far higher probability than a normal (Gaussian) distribution would predict. These are genuine, observable risks—price volatility, custody risk, cybersecurity risk, liquidity risk, and operational risk. Banks that choose to engage with Bitcoin should be required to manage them through strong internal controls, audited custody standards, prudent inventory limits, appropriate supervision, and robust operational safeguards.But Bitcoin is fundamentally different from many other cryptoassets. It has no issuer, no borrower, no management team, no coupon, no redemption promise, no reserve portfolio, and no defaulting counterparty. It is an issuerless, decentralized, globally traded capital asset with a transparent, fixed supply schedule, a public and immutable settlement history, open-source validation, and continuous market pricing. Its risks are real and power-law in nature—driven by market dynamics, custody, cybersecurity, operations, liquidity, hedging, and concentration—but they are not opaque. They can be directly observed, measured, supervised, and capitalized using empirical data and transparent market signals.The blanket 1,250% risk weight proposed by Basel is therefore the wrong tool for Bitcoin's actual risk profile. It treats Bitcoin as if it carried the same opaque credit and counterparty risks as speculative instruments or issuer-backed tokens. Regulation that lumps everything together fails to distinguish among different assets, different structures, and different risk distributions. Power-law tail risks are real, but they are market risks that can be addressed through market-risk capital models, stress testing calibrated to fat tails, and operational-risk treatments—not by forcing banks to hold capital equal to 100% or more of the exposure before buffers.At an 8% minimum capital ratio, this treatment effectively requires capital equal to the full value of a bank's Bitcoin exposure. That does not make banks safer. It simply prevents regulated institutions from offering the custody, settlement, secured lending, treasury services, payment infrastructure, market-making support, hedging tools, and client services that Bitcoin users and businesses increasingly need.I respectfully urge the agencies not to adopt or entrench Basel's blanket 1,250% treatment for Bitcoin. Instead, develop your own risk-sensitive framework that directly addresses Bitcoin's power-law market risks and its other real risks through:market-risk capital rules calibrated to fat-tailed distributions,
operational-risk treatment for custody and key management,
cybersecurity standards,
recognition of hedging,
audited custody controls,
prudent inventory limits, and
graduated concentration limits.

The agencies should also clearly distinguish Bitcoin from issuer-backed tokens, stablecoins, DeFi instruments, and other crypto assets with materially different risk profiles. Bitcoin does not need special treatment. It needs accurate treatment based on what it actually is.A risk-sensitive framework would better protect safety and soundness while allowing Bitcoin-related activity to occur inside regulated, supervised U.S. financial institutions. A blanket penalty would only push that activity into unregulated channels, reduce consumer choice and protections, and weaken American leadership in Bitcoin and financial technology.America cannot lead the next generation of financial infrastructure if its banks are effectively barred from participating responsibly in Bitcoin markets. I urge you to choose precision over punishment.