

# The Fed launches guidelines for crypto firms to get master account access

Article

**The news:** The Federal Reserve released a set of long-awaited guidelines that outline how crypto firms can access master accounts at the Fed, [per](#) a press release.

**'New types of products':** The guidelines don't mention crypto, bitcoin, or any other type of digital asset by name. Instead, the Fed says the guidelines were needed because more firms are offering new types of financial products and [requesting access](#) to master accounts and payment services the Fed offers.

The guidelines sort applicant institutions into three levels, and the application review becomes more stringent at each level.

- Tier 1 represents applicants that are federally insured. These institutions are subject to strict regulatory requirements and embody the lowest risk level.
- Tier 2 contains applicants that are not federally insured, but are subject to federal prudential supervision. These firms follow regulatory frameworks similar to those for federally insured institutions but not identical. Therefore they represent a slightly higher risk.
- Tier 3 applicants are neither federally insured nor subject to prudential supervision by a federal banking agency. These institutions are generally subject to a substantially different regulatory framework and likely pose the greatest level of risk.

The Fed first released proposed guidelines and sought comments on them last year, which it took into account when it finalized and released updated guidelines this week. Notably, some of the comments called for tier 3 applicants to be regulated under the same framework as federally insured institutions.

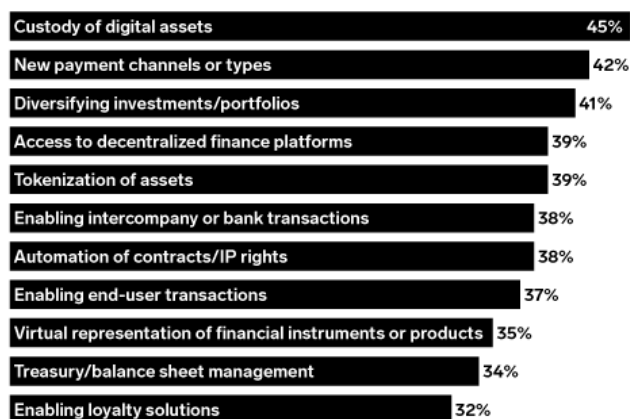
**The bigger picture:** While the guidance does not specifically call out crypto firms, many in the industry consider it applicable and believe these firms [fall within tier 3](#). Currently, most crypto firms work with an intermediary bank to obtain master account access. But a few have applied for direct access.

- Digital asset bank **Custodia**, which applied for a master account shortly after it gained its Wyoming bank charter in 2019, later [sued the Federal Reserve](#) for not giving a response within the one-year time frame that Custodia said it's legally obligated to abide by.
- Another digital asset firm, **Kraken Bank**, also applied for a master account in 2021.

Both banks received a routing number from the Fed, but the status of their applications is still pending.

## Digital Assets that Will Have a Very Important Role in Organizations/Projects According to Financial Services Executives Worldwide, April 2021

% of respondents



Note: n=1,280

Source: Deloitte, "2021 Global Blockchain Survey," Aug 19, 2021

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**Full steam ahead?** Despite a lack of clarity about the next steps, we expect more crypto and other digital asset firms will turn in applications. Since the deterioration of the crypto market in H1 2022, firms have been looking to rebuild and regain consumer trust. Applying for a Fed master account could help, as it would show customers that these firms are operating in good faith, rather than outside any regulatory system.

But the tiering mechanism leaves much to be desired. Not only are the digital asset markets not federally insured or subject to prudential supervision, they've also been left unregulated across the globe. Despite the new guidelines, it's hard to imagine a scenario in which the Fed gives an unregulated entity access to its accounts and payment systems.

**The big takeaway:** The Fed may be using this guidance as an information-gathering exercise. From the applications submitted, the Fed will assemble a better picture of which firms are operating in crypto and digital assets, and how deeply they are involved. Although the Fed has formalized the submission process, there's still no indication of how long it will take, or exactly what standards these firms need to meet for approval. The "stricter scrutiny" might just include letting applications pile up until regulators take action.

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