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Banking Groups Push Back Against Crypto Firms' Charter Bids

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U.S. banking groups are urging federal regulators to delay decisions on crypto companies' applications for national bank licenses, warning that such approvals could significantly alter long-standing financial policy and risk undermining the country's regulatory framework.

In a joint letter to the Office of the Comptroller of the Currency (OCC), the American Bankers Association and other prominent banking and credit union associations called for a pause in the review process for banking charters submitted by cryptocurrency firms. These include major stablecoin issuers such as Circle Internet Group, Ripple Labs, and Fidelity Digital Assets. The letter argues that granting national trust bank charters to these companies would raise "significant policy and process concerns," particularly given the absence of traditional fiduciary functions in their business models.

At the heart of the issue is whether offering custodial services for digital assets qualifies as a fiduciary activity under the scope of a national trust bank. The groups contend that it does not, and they emphasize that approving such charters without thorough public scrutiny would represent a drastic shift in regulatory precedent. They note that the current public disclosures in the applications are insufficient for a meaningful review and do not clearly outline how these firms intend to operate within the national banking system.

By obtaining a national trust bank charter, a crypto firm could bypass state-by-state licensing requirements, effectively granting it broader operating authority and the ability to process payments more efficiently across the United States. This, banking groups argue, could open the door for other non-traditional financial entities to pursue similar charters, ultimately posing a "material risk to the U.S. banking and financial system."

Industry experts have weighed in on the dispute. Caitlin Long, founder of Custodia Bank, stated on X (formerly Twitter) that the issue of using trust charters as "de facto" bank licenses while avoiding capital requirements that apply to traditional banks is likely headed for legal challenges. Alexander Grieve of Paradigm, a venture capital firm, noted that the unusual alliance between banks and credit unions on this matter signals that traditional institutions are beginning to feel the competitive pressure from the crypto sector.

According to Logan Payne, a digital assets attorney at Winston & Strawn, the recently passed "Guiding Emissions and New Innovation Using Stablecoins" (GENIUS) Act is contributing to this surge in license applications. While the act introduces a stablecoin-specific license, it restricts firms solely to stablecoin issuance. However, Payne notes that most stablecoin companies engage in broader activities, making the OCC charter a more attractive route due to its broader permissions and elimination of the need for multiple state licenses.

As the regulatory battle continues, the outcome will likely shape the future intersection of cryptocurrency and traditional banking. Whether regulators lean toward innovation or maintain current guardrails, the implications for the financial system will be far-reaching.