



VIA EMAIL ONLY

July 12, 2021

Ann E. Misback, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, DC 20551
regs.comments@federalreserve.gov
Docket No: OP-1747

Re: Proposed Guidelines for Evaluating Account and Services Requests; Docket No. OP-1747

Dear Secretary Misback,

The Wisconsin Bankers Association (WBA) is the largest financial trade association in Wisconsin, representing over 200 state and nationally chartered banks, savings banks, and savings and loan associations located in communities throughout the State. WBA appreciates the opportunity to comment on the Board of Governors of the Federal Reserve System's (FRB's) proposed guidelines for evaluating accounts and services requests at Federal Reserve Banks (Reserve Banks) for non-traditional banks and novel charters.

FRB is considering the adoption of guidelines to be used by Reserve Banks in the evaluation of requests for master accounts and/or access to Reserve Bank financial services. In setting new guidelines, FRB stated its belief that it is important that the Reserve Banks apply a consistent set of guidelines when reviewing access to promote consistent outcomes across the Reserve Banks and to help ensure equitable treatment across institutions.

WBA appreciates FRB's efforts to create consistent guidelines for account and payment services at the Reserve Banks, including for evaluating applications from non-traditional banks or novel charters. However, WBA is gravely concerned over FRB allowing for access by entities subject to little or no regulatory oversight, have minimal capital and liquidity requirements or monitoring and testing plans of those levels, and whose track records have demonstrated a lack of protection against money laundering, cybersecurity, and data breaches. WBA fears access to the Reserve Banks account and services for such entities will cause harm to the payments system, the U.S. financial industry, and could negatively impact the market and the broader economy.

To better protect against such harms, the proposed guidelines need be strengthened. If FRB is to move forward with implementing a set of guidelines to evaluate applications for Reserve Banks accounts and services to non-traditional banks and novel charters, WBA recommends the following:

Same Regulatory and Supervisory Standards for All Users

WBA strongly believes that all entities that seek access to the Reserve Banks account and payment services should be subject to at least the same standards, and regulatory and supervisory oversight, as traditional banks. Today, for access to the payments system, WBA members are subject to robust regulation and supervision and are required to publish financial data on a quarterly basis. The standards make the payments system efficient, secure, and safe. Past practices, findings, and events have demonstrated that non-traditional banks and novel charters are susceptible to money laundering, cybersecurity, and consumer data breaches. As a result, non-traditional banks and novel charters should be required, at minimum, to meet similar risk management mitigation and governance practices to protect consumers, the payments system, and the U.S. financial system.

Standards to Gain and Maintain Access to Accounts and Services Must Be Clear and Specific

WBA also believes FRB need provide clear and specific details on the standards necessary to gain and maintain access to accounts and services at the Reserve Banks. For example, FRB acknowledges novel charters may not have federal oversight or are engaging in activities that are riskier and more volatile than traditional banks. Considering this, WBA believes it would be appropriate to hold these novel charters to even higher standards commensurate with the risk they pose to the stability of the financial system and the implementation of monetary policy. However, despite FRB's acknowledgment, the proposed guidelines do not provide specific enough details on the necessary levels or composition of capital and liquidity or how the Reserve Banks will evaluate the ability of novel charters to manage their risks on an ongoing basis. WBA believes it is necessary for FRB to set clear and precise standards and expectations to make the process more transparent and to help ensure that the Reserve Banks will apply standards consistently.

Establish a Coordinated Evaluation Committee

To advance the goal of creating a uniform evaluation policy, WBA recommends FRB create a coordinated FRB-led evaluation committee to review all applications for accounts and services at the Reserve Banks. WBA believes such centralization would improve the evaluation process and bring the unique expertise and perspective of each Reserve Bank and the various functional expertise of FRB to the review. WBA believes these efforts will help bring system-wide perspectives to the forefront of evaluation.

Ensure an Independent Assessment of an Applicant's Risk Profile

The proposed guidelines note that a Reserve Bank will incorporate, when possible, the assessments of the applicant's state or federal supervisory into its own "independent assessment." While the perspectives of an entity's primary regulator should certainly be considered, WBA believes these assessments alone are insufficient. As FRB has payments system oversight and a financial stability oversight mandate, WBA strongly recommends the guidelines include an independent assessment by the Reserve Banks and FRB of an applicant's risk profile.

Mandate Ongoing Review of Entities Not Subject to Federal Supervision

WBA believes participants in the payments system should not be evaluated solely on policies and procedures outlined in an application. Instead, entities granted access to the payments system should be subject to ongoing supervision and disclosure requirements to ensure they continue to meet the Reserve Banks' expectations. WBA recommends FRB mandate ongoing

review of entities that gain access to the payments system who are otherwise not subject to federal supervision.

Require Audited Financial Reports

WBA also believes the Reserve Banks must be able to access the condition of the accountholders on its balance sheets on an ongoing basis. For those entities that do not file detailed Call Reports or similar reports, WBA recommends periodic publicly disclosed and audited financial disclosures be required for access to Reserve Bank accounts and payment services. WBA believes such reporting will provide the Reserve Banks and market participants the information necessary to assess an entity's condition on an ongoing basis.

Demonstrate Effective Consumer Protection Programs

To the extent an applicant provides services to consumers, entities having access to Reserve Bank services must demonstrate an effective program that meets all relevant consumer protections, including those related to Regulation E.

Conclusion

The decision by FRB to allow non-traditional banks and novel charters access to Reserve Bank accounts and services will have consequences to the Federal Reserve System. If not properly planned for, those consequences could include harm to the payments system and the U.S. financial industry and could negatively impact the market and the broader economy.

To better protect against such harms, the proposed guidelines need be strengthened by requiring similar regulatory and supervisory standards for all users, making the standards to gain and maintain access to the Reserve Banks' accounts and services detailed, clear, and specific, establishing a coordinated FRB-led evaluation committee, ensuring an independent assessment of an applicant's risk profile by FRB and the Reserve Banks, mandating the ongoing review of entities not subject to federal supervision, requiring audited financial reports for those who do not file Call Reports or similar detailed reports, and requiring entities to demonstrate they have an effective program to meet all relevant consumer protections, as applicable.

WBA appreciates the opportunity to comment on the proposed guidelines.

Sincerely,



Rose Oswald Poels
President/CEO