

# [***Custodia Amps Up Suit Against Fed; Crypto Firm Says Central Bank Breaking Law***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:67KW-DKN1-JBCM-F17Y-00000-00&context=1516831)

Forbes.com

February 20, 2023 Monday

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**Length:** 855 words

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**Highlight:** Wyoming digital-finance specialist complains of a Washington conspiracy that could run it out of business. Wyoming digital-finance specialist complains of a Washington conspiracy that could run it out of business.

**Body**

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Custodia Bankis accusing the Federal Reserve Board of patently unlawful actions that will prevent the company from providing financial services to the digital-assets industry, part of a wider government crackdown on the cryptocurrency sector that has intensified in recent days.

The bank claims that the Fed hijacked a decision from the Federal Reserve Bank of Kansas City that would have given the Wyoming-chartered institution access to custodial services necessary for it to compete with entrenched rivals, specifically identifying BNY Mellon.

Custodia will be unable to operate as designed and may have to cease all banking operations, as a result of the Fed s actions, according to an amended complaint filed in the federal district court for Wyoming.

The bank has beensuingthe Fed since June 7, 2022. It upped the stakes on Friday with an amended complaint that charged the central bank is pulling the strings of the theoretically independent Kansas City institution. The regional Federal Reserve branch denied Custodia s application for a master account that would have allowed the bank to not have to go through a third-party bank to access wholesale payment systems and related Fed services.

This case involves Defendants patently unlawful denial of an application critical to Custodia s business a master account to which it is unequivocally entitled as an eligible depository institution, according to the amended suit.

The Kansas City Fed s decision was revealed on January 27, following the board s rejection of Custodia s separate application to become a member of the Federal Reserve System. Membership would have given it recognition as a bank throughout the U.S., rather than just the 35 states that recognize the Wyoming special-purpose depository institution (SPDI) charter under which Custodia operates. Wyoming created SPDIs as part of itscampaignto draw digital-asset companies to the state.

The Kansas City Fed cannot legally refuse its application, according to Custodia s complaint. Indeed, the branch had indicated that it was informed in January 2021 that there were no showstoppers Custodia claims the Federal Reserve Board asserted control over the decision-making process in the spring of that year. The Kansas City Fed s denial of Custodia s master account application asserted that new banks that have to build their customer bases from scratch, are not permitted to engage with crypto-assets.

That echoed the earlier rejection of the Fed board that maintained that crypto activities are highly likely to be inconsistent with safe and sound banking practices and Custodia's risk management framework was insufficient to address concerns regarding the heightened risks associated with its proposed crypto activities, including its ability to mitigate money laundering and terrorism financing risks.

The timing and circumstances of the denial reinforce that the denial was part of a larger effort coordinated by the Board (in conjunction with the White House), according to the suit, that new banks should not be permitted to engage with crypto-assets,

The denials roughly coincided with a January 27 executive-branchstatementon the risks of crypto assets, the complaint noted. Further regulatory actions indicate the government is cracking down on digital finance.

This month, the Securities and Exchange Commission has sued the crypto exchange Kraken which ended a U.S. retail interest offering known as staking as a result andTerraform Labs, the provider of the failed terraUSD stable coin, claiming both had offered unregistered securities and also charging the latter with fraud. The SEC has also told Paxos, which provided a version of the Binance USD stablecoin, that it was under investigation, also for selling what it considered unregistered securities, although it has yet to be established that any crypto products qualify as securities.

Caitlin Long, Custodia s CEO, wrote in a blog postthat the government, chagrined at presiding over a spate of crypto disasters, most of which seem to be the result of malfeasance, is taking a heavy-handed and politically partisan approach to the industry.

Custodia tried to become federally regulated, she wrote. But the bank has been denied and now disparaged for daring to come through the front door. She added: Washington s misguided crackdown will only push risks into the shadows, leaving regulators to play whack-a-mole as the risks continuously pop up in unexpected places.

If the White House and federal agencies are cracking down on crypto, Custodia at least has an ally on Capitol Hill. Hometown Senator Cynthia Lummis (R-Wyo.) vehemently disagrees with the Fed s decision to deny Custodia Bank s master account application.

The Fed has not given the applicant the required legal due process., says Lummis. There is no doubt in my mind that Wyoming s SPDI laws fully comply with the Federal Reserve Act. These actions are obviously more about ***politics*** than bank regulation and call into question whether the Fed is, in fact, free from political influence.

**Load-Date:** February 21, 2023

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