

Wyoming crypto bank's Federal Reserve application denied

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The seal of the Board of Governors of the United States Federal Reserve System is displayed on the desk as Federal Reserve Chair Janet Yellen speaks during a news conference following the Federal Open Market Committee meeting in Washington, Wednesday, Dec. 13, 2017. The Federal Reserve Board has denied a Wyoming cryptocurrency bank's application for Federal Reserve System membership, officials announced Friday, Jan. 27, 2023, a setback for the crypto industry's attempts to build acceptance in mainstream U.S. banking. Credit: AP Photo/Carolyn Kaster, File

The Federal Reserve Board has denied a Wyoming cryptocurrency bank's application for Federal Reserve System membership, officials announced Friday, dealing a setback to the crypto industry's attempts to build acceptance in mainstream U.S. banking.

Many in [crypto](#) have been looking to Cheyenne-based Custodia Bank's more than 2-year-old application as a bellwether for crypto banking. Approval would have meant access to Federal Reserve services including its electronic payments system.

The rejection adds to doubts about crypto banking's viability, particularly in Wyoming, a state that has sought to become a hub of crypto banking, exchanges and mining.

Custodia's business model and focus on crypto presented "significant safety and soundness risks" for depositors, the Federal Reserve Board said in a statement.

"The board has previously made clear that such crypto activities are highly likely to be inconsistent with safe and sound banking practices," it added.

The board also expressed doubt about Custodia's ability to discourage money laundering and terrorism financing through crypto.

Custodia sued the Federal Reserve Board and Federal Reserve Bank of Kansas City in Wyoming federal court last year, accusing them of taking an unreasonably long time on its application. In a statement Friday, the company said it was "surprised and disappointed" by the rejection and pledged to continue to litigate the issue.

"Custodia offered a safe, federally regulated, solvent alternative to the reckless speculators and grifters of crypto that penetrated the U.S. banking system, with disastrous results for some banks. Custodia actively sought federal regulation, going above and beyond all requirements that apply to traditional banks," the statement quoted CEO Caitlin Long as saying.

Wyoming in recent years has passed many laws and regulations friendly to crypto and blockchain, the electronic ledgers on which Bitcoin, Ethereum and other cryptocurrencies run. One new law allows state-chartered crypto banks called special purpose depository institutions.

Wyoming has chartered four such crypto banks called SPDI's, or "speedies," including Custodia. They have shown little public activity while Custodia's application was pending.

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