Banking and Finance Law Daily Wrap Up, FEDERAL RESERVE SYSTEM—ICBA, state bankers object to Fed account access for Kraken, (Apr. 9, 2026)

Banking and Finance Law Daily Wrap Up

By George M. Gullo, J.D.

The trade organizations warn that granting Federal Reserve account access to an uninsured, cryptofocused institution like Kraken creates systemic risk.

The Independent Community Bankers of America (ICBA), joined by 42 state bankers' associations, has objected to the Federal Reserve Bank of Kansas City's decision to grant Payward Financial, d/b/a Kraken Financial, access to a Federal Reserve master account, warning that the approval raises significant risk, policy, and precedent concerns for the U.S. payments system. In an Apr. 7, 2026, letter addressed to Kansas City President Jeffrey R. Schmid, the industry groups argued that Federal Reserve account access has historically been limited to federally insured depository institutions subject to "robust prudential oversight." They contend that granting such access to a cryptoaffiliated firm that is not federally insured departs from that framework and introduces operational, legal, and reputational risks into Federal Reserve System infrastructure.

No FDIC insurance. Kraken Financial is a Wyomingchartered special purpose depository institution and does not carry federal deposit insurance. Its application for Federal Reserve Bank services was evaluated as a Tier 3 request under the Board of Governors' Guidelines for Evaluating Account and Services Requests—the category that faces the highest level of scrutiny because it applies to institutions that are neither federally insured nor subject to federal prudential supervision. According to the letter, even a "limited purpose" or "skinny" account can pose meaningful risks where the applicant's business model is centered on cryptoasset activities.

Absence of supervision. A central concern raised by ICBA and the state associations is the absence of consolidated federal supervision over Kraken and its affiliates. The groups warned that without a single federal regulator overseeing the full enterprise, risks originating elsewhere in the corporate structure could be difficult for a Reserve Bank to identify, contain, or mitigate before they affect the Federal Reserve's balance sheet or the broader payments ecosystem.

Compliance risks. The letter also highlighted heightened antimoney laundering, Bank Secrecy Act, and sanctions compliance risks associated with Kraken's core activities. As an example, the associations pointed to Kraken's 2022 settlement with the Office of Foreign Assets Control over apparent Iran sanctions violations, underscoring that shortcomings at the parent enterprise are not "hypothetical." The inherent volatility of crypto markets further compounds these risks by increasing the likelihood of sudden liquidity demands that could transmit stress directly into the payment system.

Timing and process. Beyond substantive risk issues, the associations criticized the timing and process of the Kansas City Fed's approval. They noted that the Board of Governors has not finalized a broader policy framework governing a potential Payment Account Prototype, including how it will incorporate the public's comments on its request for information. In their view, the regional Reserve Bank's action appears to circumvent ongoing Boardlevel deliberations and pending policy development.

Clear criteria. The groups acknowledged public statements describing the Kraken account as a shortterm "pilot," but stressed that any such approval must be treated as a true pilot with rigorous transparency, mandatory evaluation

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points, and clearly defined criteria for renewal or revocation if risks materialize. To that end, the letter urged the Kansas City Fed to reconsider the approval or, at a minimum, to impose robust and enforceable risk controls and exit mechanisms. It also called for the application of consistent standards across Reserve Banks and to provide greater public transparency into how the Account Access Guidelines are being implemented for Tier 3 applicants.

Immediate concern. The objection follows the Kansas City Fed's March 2026 announcement that it had approved a oneyear, limited purpose master account for Kraken Financial—an action that drew praise from cryptocurrency proponents and Wyoming officials, but immediate concern from major banking trade groups, including ICBA, the American Banking Association, and the Bank Policy Institute, as well as House Financial Services Committee Ranking Member Maxine Waters (D-Calif.) (see *Banking and Finance Law Daily*, Mar. 5, 2026, and Mar. 27, 2026).

Safe and sound. ICBA and the state associations concluded their letter by emphasizing that community banks and their customers depend on a payments system that is safe, sound, and equitable, and warned that expanding direct Federal Reserve access to uninsured entities that operate outside the traditional banking regulatory framework could undermine those foundational objectives.

Companies: American Banking Association; Bank Policy Institute; Independent Community Bankers of America

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