What Banks Should Know About Crypto Custody Services

technology regulatory cryptocurrencies

Summary: The OCC recently gave banks the go-ahead to provide cryptocurrency custody services. We provide you with some considerations before you do.

The Fed reports that it costs 19.6 cents to print the $100 bill and that a missing watermark and security thread are the best ways to detect a counterfeit bill. That is comforting to bankers. But with cryptocurrency being used more these days, bankers will face new challenges and need to rely more heavily on regulators for guidance, if they decide to go down this path.

The Office of the Comptroller of the Currency (OCC) recently published a letter clarifying national banks' and federal savings associations' authority to provide cryptocurrency custody services for customers. While banks now have the go-ahead to take part in this emerging area, it is still somewhat uncharted territory on how to do it safely and in accordance with limited regulatory guidance. We provide you with some considerations.

Cryptocurrencies are a complicated matter. At their most basic level, many cryptocurrencies are decentralized networks based on blockchain technology, making these digital assets hard to counterfeit or double-spend. However, generally, they aren't issued by any central authority and they can be hard to trace, which complicates matters for regulatory purposes.

Cryptocurrencies are gaining in popularity. Tens of millions of Americans are estimated to hold, invest, or speculate in cryptocurrencies. Based on the growing use of these cryptocurrencies, there is understandably an increased demand for safe places to safeguard these assets. Banks are certainly a viable candidate to do so and the OCC's guidance affirms banks have this opportunity -- provided they "effectively manage the risks and comply with applicable law."

Research thoroughly. Banks that are interested in this type of custody service have to tread carefully, however. As the OCC's guidance makes clear, it's a different ballgame than the custody of physical assets. There are numerous questions to be answered in areas such as the target customer base, appropriate staffing, vendor management, necessary scale, cost, and of course, how to comply with anti-money laundering laws. Specialized procedures will need to be implemented and tailored to digital currency.

Work closely with regulators. With certainty, banks are going to need to make sure they have all their regulatory ducks in a row. The OCC makes clear, for example, that banks should not go down this path without first consulting with regulatory supervisors. The OCC said it would review these activities as part of its ordinary supervisory processes.

While we have been talking about blockchain and cryptocurrencies for a while, regulators seem to be taking a greater interest these days. Still, this is an evolving area in which we don't expect many will dabble quite yet. Rest assured, we will keep our ear to the ground as developments ensue.

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