Zero One Strategies

ANALYSIS

PRESIDENT'S WORKING GROUP
ON DIGITAL ASSET MARKETS

Banking and Digital Assets

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The President's Working Group on Digital Asset Markets (PWG) was established by Executive Order 14178, Strengthening American Leadership in Digital Financial Technology[1], and directed to submit a report to the President within 180 days recommending regulatory and legislative proposals to support responsible growth and use of digital assets, blockchain technology, and related technologies across all sectors of the economy. The PWG report[2] on Strengthening American Leadership in Digital Financial Technology, released July 30, 2025, proposes recommendations related to market structure, banking, stablecoins and payments, countering illicit finance, and taxation.

The below analysis focuses on the PWG recommendations for digital asset guidance and legislation on banking.

Background and Context

The U.S. digital asset ecosystem developed at the interface of traditional financial institutions (banks) and newer crypto-native entities. While some banks embraced crypto clients or pioneered new products, regulatory obstacles, especially under the Biden Administration's "Operation Choke Point 2.0", created significant headwinds.

This approach led to widespread "de-banking" of crypto firms, causing banks to pause or exit digital asset activities to avoid regulatory scrutiny.

Under the Trump Administration, these restrictive policies were rescinded. The FDIC, OCC, and Fed all withdrew earlier guidance discouraging digital asset activity and affirmed the legal permissibility of banks offering digital asset services, including custody, stablecoin activities, and use of blockchain for payments.

Ways Banks Engage with Digital Assets

Core Banking Services: Banks offer deposit accounts, payments, lending, and capital markets services to digital asset firms. Regulatory uncertainty historically limited such relationships, but agencies recently clarified banks are not prohibited from serving lawful businesses.

[1] https://www.whitehouse.gov/presidential-actions/2025/01/strengthening-american-leadership-in-digital-financial-technology/
[2] https://www.whitehouse.gov/crypto

Payments and Settlement: Banks experiment with blockchain for low-cost, instant payments—often via private consortia. Some leverage public blockchains, and tokenized bank deposits are being piloted for real-time internal transfers.

Tokenization: Banks and clients focus on tokenizing inefficiency-prone traditional assets—deposits, loans, foreign exchange, repos—enabling programmable, on-chain operations. Regulatory clarity is sought on the definition and practicalities.

Custody: A small but growing number of banks (primarily serving institutional clients) offer digital asset custody (key management and settlement), but the sector is dominated by nonbank crypto-native providers.

Trading Facilitation: Some banks facilitate digital asset trading for clients, typically via third-party partnerships, but few use their "finder" authority to provide direct access.

Lending: Bank-issued loans collateralized by digital assets remain rare, due to regulatory uncertainty, volatility risks, and administrative complexity.

Regulatory Framework and Legal Permissibility

Key Principles

The prevailing framework stresses technology-neutral regulation—risks, not specific technologies, should dictate rules.

National banks' powers (defined by the National Bank Act and OCC interpretations) circumscribe the activities of most insured institutions, and both state and federal agencies serve as "laboratories for innovation."

Recent OCC interpretive letters affirmed that custody, stablecoin reserve holding, and some blockchain-based payment activities are permissible for banks.

Challenges Under Biden Administration

The Federal Reserve codified a "rebuttable presumption" limiting activities of state member banks to those OCC permits for national banks. This suppressed state-level innovation and practically blocked most crypto activity for such institutions.

Federal regulatory guidance and "de-risking" narratives led banks to withdraw from serving digital asset entities or experimenting with blockchain-based services.

Recent Developments

Non-objection procedures for digital asset activities have been removed. Now, digital asset activities are supervised under regular processes, without the need for prior notice or approval—as long as risk management is sound and activities are permissible.

Ongoing Issues and Policy Considerations

Banks

Banks report continued uncertainty regarding legal authority to use public/permissionless blockchains, undertake tokenization, or engage as principal in certain digital asset activities.

The absence of clear and consistent standards for risk management, capital requirements, and regulatory review—especially for state-chartered banks or those seeking federal charters/master accounts—runs counter to the principle of neutral, innovation-supportive oversight.

Credit Unions

Some credit unions are experimenting with digital asset custody, payments, and tokenization, but often lack explicit legal authority for digital asset custody and seek more clarity from NCUA.

Capital Treatment

The Basel Committee (BCBS) standards divide cryptoassets into Group 1 ("tokenized traditional assets" and qualifying stablecoins), subject to traditional capital rules, and Group 2 (other cryptoassets, like bitcoin), subject to punitive 1,250% risk weights and aggregate limits.

The U.S. is urged to adopt capital requirements that better match empirical risk for different cryptoassets and advocate for global standards that enable the use of permissionless blockchains if risks are appropriately mitigated.

Insurance

The insurance market for digital assets, especially for personal lines, is limited due to regulatory ambiguity, lack of underwriting history, and asset volatility. A handful of commercial policies exist, mainly for exchanges and custodians, but with high cost and limited coverage.

PWG Recommendations

Relaunch agency crypto innovation efforts—as appropriate—to address outstanding bank activities.

These efforts should prioritize providing clarity on the activities that banks are most interested in conducting with a clear process for considering other or new activities. The objectives would be to:

- Clarify or expand the recognized, permissible digital asset activities in which banks may engage, consistent with applicable law;
- To the extent possible, and consistent with applicable law, ensure parity in permissibility between bank charter types; and
- Clarify supervisory expectations on safe and sound conduct that protects consumers and is compliant with applicable laws and regulations in bank engagement with digital assets, private and permissionless blockchains, tokenized deposits, and where to conduct principal bank activities (e.g., in the insured depository institution or the holding company).

The initial activities and topics to consider include:

- Custody of Digital Assets. While the Banking Agencies have clarified permissibility and certain risk management considerations, it could be beneficial to provide additional guidance on technical best practices.
- Third Parties. While the Banking Agencies have clarified the permissibility of using third parties as sub-custodians, it may be beneficial to ensure any additional guidance on permissibility or risk management for other digital asset activities reiterates the ability to use third parties as infrastructure providers or for other digital asset services.
- Holding Stablecoin Reserves as Deposits. While the OCC has clarified permissibility, it could be beneficial to offer additional guidance now that GEOSA has been enacted.

- Principal Activities. Provide clarity on the permissibility for depository institutions to hold digital assets on their balance sheet and any associated safety and soundness concerns.
- Pilots. Clarity is needed on the ability for depository institutions to participate in pilots and experiments related to digital assets.
- Tokenization. Provide clear risk-based guidelines that consider underlying risk and asset features to determine the permissibility of bank tokenization activities, including tokenization of deposits.
- Permissionless Blockchains. Provide clarity regarding the use of permissionless blockchains that ensures a technology-neutral approach focusing on underlying risks of the activity or technology versus using technology alone as a proxy for risk.

Encourage innovation in banking technologies and products by state-chartered banks.

The FRB should rescind the 2023 Section 9(13) Policy Guidance and 12 C.F.R. § 208.112 (which effectively codifies the Policy Guidance into Regulation H), to ensure that state member banks are permitted to explore innovative banking technologies and products.

Develop guidance and best practices to support banks and supervisors that is technically sound and principles-based.

Risk management principles and best practices described in existing agency issuances generally provide flexible guidance for banking organizations' considerations that can apply to the safe and sound implementation of innovative technologies and products, including those related to digital assets and DLT. Nonetheless, it is important that agency examination teams and banks are properly equipped to adopt current risk management principles to digital asset technologies.

This could involve engagement with NIST and others to identify applicable standards or best practices that could be used in guidance for some digital asset activities such as providing digital asset custody services, ensuring compliance with applicable AML/CFT obligations (see Chapter VI, which discusses the AML-specific regulatory duties for digital assets for more details), or managing cyber risks particular to digital assets. This could also include best practices or standards applicable to banks' use of third parties in the provision of digital asset services.

Finally, the Banking Agencies and state regulators should ensure that their examination teams are adequately educated on issues related to digital assets and the consistent application of best practices and standards across institutions.

Clarify the role of supervisors and banks in offering banking services to potential customers.

The Banking Agencies should ensure that existing and new best practices or guidance on risk management and bank engagement are technology-neutral and that expectations regarding offering banking services do not discriminate against lawful businesses solely due to their industry. For example, OCC Bulletin 2020-10 Banking Money Services Businesses: Statement on Risk Management, which makes clear that the OCC expects OCC-regulated banks to assess the risks posed by an MSB customer on a case-by-case basis rather than to consider all MSBs high risk, could be extended, and the FRB and FDIC could issue similar guidance.

Notably, much work has already been done in in this area as the Banking Agencies withdrew previous guidance on bank engagement with digital assets that did not fully adhere to that principle.

Additionally, the removal of reputation risk as a basis for supervisory criticism by the Banking Agencies is also underway and should be finalized as soon as possible.

Provide clarity and transparency regarding the process for eligible institutions to obtain a bank charter or a Reserve Bank master account.

The relevant Banking Agencies should clarify and define in regulation the expected timelines for decision-making on completed applications for charter licensing (including federal deposit insurance where applicable) and requesting a Reserve Bank master account.

If regulatory timelines are not met for a given application, the application should be deemed approved absent extraordinary circumstances.

The Banking Agencies should also confirm that otherwise eligible entities are not prohibited from obtaining bank charters, obtaining federal deposit insurance, or receiving Reserve Bank master accounts or services solely because they engage in digital asset-related activities.

Finally, the Banking Agencies should provide additional transparency, as appropriate, on the number of, and average time to review, complete applications, including new charter applications, federal deposit insurance applications, and Reserve Bank master account applications, on both an aggregated and annual basis.

The Banking Agencies should clarify the circumstances, using risk-based guidelines, under which tokenized assets and tokenized asset collateral would be subject to the same capital and liquidity treatment as the underlying asset or collateral.

The United States should adopt capital requirements for bank digital asset activities that accurately reflect the risk of the asset or activity. Additionally, the United States should advocate that the BCBS revisit the cryptoasset standards to ensure similar treatment to U.S. capital requirements.

In adopting capital requirements for bank digital asset activities, the following actions should be taken to evaluate and improve the BCBS cryptoasset standards:

- Simplification of the cryptoasset grouping: BCBS's four groups of cryptoassets should be simplified. Applying a separate classification to traditional assets due to the use a specific technology does not adhere to the principle of technology-neutrality. Furthermore, the treatment of tokenized traditional assets as cryptoassets is misleading and may create unintended negative consequences. Additionally, the BCBS distinction between Group 1a and Group 1b cryptoassets does not create a clear enough distinction between cryptoassets widely used for payment and investment purposes and other cryptoassets, such as memecoins. The U.S. prudential cryptoasset framework should: (i) clarify when tokenized traditional assets are equivalent to traditional assets and are subject to the same capital and liquidity requirements as traditional assets; (ii) work to align the BCBS definition of stablecoins eligible for Group 1b treatment with requirements set forth in GEOSA; and (iii) simplify the classification of Group 2 cryptoassets and address the treatment of cryptoassets outside of Group 2.
- Use of permissionless blockchain for all groups of cryptoassets: Under the BCBS standards, cryptoassets relying on permissionless blockchains pose risks that may prevent them from being included in Group 1. However, experimentation and testing with permissionless blockchains by regulated financial institutions suggests that technical solutions to mitigate the risks identified by the BCBS are being actively developed and implemented. The BCBS also raises concerns with the probabilistic settlement of permissionless blockchains. However, over the last several years, market participants have been developing industry standards for determining when a settlement has completed on probabilistic blockchains. The United States should consider incorporating those standards to inform the prudential treatment of those characteristics of distributed ledger technology.

Review the calibration of capital requirements for credit risk, market risk, operational risk, and liquidity risk to incorporate empirical evidence of recent changes in cryptoasset performance and risk.

Changes in the grouping of cryptoassets may not fully modernize the BCBS cryptoasset prudential standards. The United States should also revisit the calibration of the prudential standards to consider incorporating recent innovations and changes in the cryptoasset market since the BCBS standards were first published in 2022.

The Banking Agencies should undertake a comprehensive data analysis on the performance and risk of cryptoassets informed by issuing a request for information from the public, inclusive of representatives from cryptoasset data vendors, distributed ledger infrastructure providers, banking organizations of all sizes, and industry associations. The analysis would assist the Banking Agencies in determining the appropriate calibration for cryptoasset capital and liquidity standards.