

Let Me In: Wyoming Special Purpose Bank Sues FED for Access to Payments System

Article By:

Grant F. Butler

Robert M. Tammero

Custodia Bank (“Custodia”) filed a complaint against the Federal Reserve Board (“FRB”) and the Federal Reserve Bank of Kansas City (“FRBKC”) in Wyoming federal court alleging that the FRB and FRBKC are unlawfully refusing to act on Custodia’s application for a master account. A Federal Reserve master account allows banks to directly access the Federal Reserve and utilize the Federal Reserve System’s payment, clearing and settlement services.

Custodia is a Wyoming-chartered special purpose depository institution (“SPDI”), which is a relatively new charter designed for institutions focused on digital assets. A Wyoming SPDI may accept deposits and provide custody, asset servicing, fiduciary asset management and related activities but is generally prohibited from making loans with customer deposits of fiat currency. An SPDI is not required to obtain FDIC deposit insurance, but may do so.

Custodia wishes to obtain a master account in order to eliminate the costs associated with using an intermediary bank to access the Federal Reserve’s services. In its complaint, Custodia asserts that because it is eligible for federal deposit insurance it is eligible for a master account. Custodia filed its application for a master account with the FRBKC on October 29, 2020. The complaint asserts that that federal banking agencies are required by statute to take final action on an application within one year ([12 U.S.C. § 4807](#)) and the FRB’s standard form agreement states processing may take 5-7 business days. Custodia alleges that the delay has caused it to launch its products using a correspondent bank, which it claims is a “decidedly second-best and far more expensive” option and “eliminates much of the competitive benefit” of the SPDI charter.

Custodia seeks that the Court declare the delay unlawful and order the FRB and FRBKC to process and decide the master account application within 30 days and if Custodia’s application is denied to further declare that the FRB and FRBKC have a statutory obligation to provide Custodia with a master account.

Access to master accounts has become a hot button issue. This is not the first time the FRB has been sued regarding master account access. A credit union formed to serve marijuana-related businesses sued the FRBKC when it was denied a master account. The opinion of one of the three

judges on a panel in the 10th Circuit stated that the credit union was entitled to a master account. Additionally, in 2018 TNB USA Inc. [sued](#) the Federal Reserve Bank of New York alleging that it was unlawfully blocked from opening a master account. The claim was dismissed because no official denial had been given. In 2021 the Federal Reserve issued [proposed guidelines](#), which it later [supplemented](#), for evaluating account requests.

Additionally, the [Lummis-Gillibrand Responsible Financial Innovation Act](#), introduced on June 7, 2022, includes a provision stipulating that any state-chartered depository institution is entitled to an account at a Federal Reserve Bank, regardless of whether the institution is federally-insured or supervised.

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