

# Wyoming leads way in crypto custody laws

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The chief executive of one of the United States' first crypto banks says it will help to modernise the US financial system by allowing securities transactions to be settled in real-time, reducing the amount of capital tied up as the traditional system takes days to complete transactions.

Custodia Bank has been licensed in the US state of Wyoming as a 'special purpose depository institution', a new form of financial institution that acts as a bridge between the US dollar payments system and the institutional grade custody of digital assets.

Australia is looking to Wyoming as a model for a new digital asset custody and licensing regime, which the federal government kicked off consultation about yesterday.

Caitlin Long, CEO of Custodia (formerly known as Avanti), said the use of cryptocurrency technologies would reduce settlement risk in US financial markets because payments and the transfer of title could occur simultaneously.

This is known as 'atomic settlement', and is seen as one of the biggest advantages of using blockchain technology as opposed to traditional financial market infrastructure, where it can take up to two days for securities transactions to be settled.

"The slow settlement of securities and payments not only creates counterparty risk and cost but ties up a lot of capital," Ms Long told a Blockchain Australia event. "One of the [reasons] the crypto industry has been so successful is asset managers can turn their portfolios many times a day because transactions settle fast."

Ms Long, who had a 22-year career

on Wall Street including as a managing director at Morgan Stanley, recently met with senator Andrew Bragg, who is advising Treasury on the implementation of reforms to create a digital custody regime in Australia.

"Most folks don't think about settlement as the big risk in financial services because so many failures to deliver in the securities industry, or misdirected payments in banking, just get papered over," she said. "But in fact, there is a lot of intraday credit that takes place due to different timing of settlement, and settlement risk is a big risk."

She explained how Custodia, which is two years into a process to become regulated by the US Federal Reserve, plans to hold \$1.08 of regulatory capital for every \$1 it holds in deposits, even though its deposits will not be lent out.

Heath Behncke, managing director of Holon Global Investments, a Sydney-based investor that has backed Custodia, said: "Compared to mainstream, liability-ridden and 'too-big-too-fail' commercial banks, we believe that SPDIs [special purpose depository institutions], and particularly Custodia, will be high returning, high-growth and low risk in the world of Web 3.0."

Many US banks are resisting Wyoming's attempts to create special crypto custodians, Ms Long said. But "it is the right thing for the US financial system to embrace this technology. It is going to win and if we stick in the US with an old, antiquated technology just to protect incumbents, that is a mistake".

"So Wyoming has set up a thoughtful regulatory regime to work with the central bank, so this industry doesn't blow up the old, leveraged financial industry, so we can coexist with bridges for money to move back and forth between the two."