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DEPARTMENT OF THE TREASURY

Office of the Comptroller of the Currency

12 CFR Parts 7 and 155

[Docket ID OCC–2019–0028]

RIN 1557–AE74

National Bank and Federal Savings Association Digital Activities

AGENCY: Office of the Comptroller of the Currency.

ACTION: Advance notice of proposed rulemaking.

SUMMARY: The Office of the Comptroller of the Currency (OCC) is interested in making sure it is aware of and understands the evolution of financial services, so it ensures the federal banking system continues to serve consumers, businesses, and communities effectively. Further, national banks and Federal savings associations (banks) must have a regulatory and supervisory framework that enables banks to adapt to rapidly changing trends and technology developments in the financial marketplace to meet customers’ evolving needs while continuing to operate in a safe and sound manner. The Office of the Comptroller of the Currency (OCC) is reviewing its regulations on bank digital activities to ensure that its regulations continue to evolve with developments in the industry. This advance notice of proposed rulemaking (ANPR) solicits public input as part of this review.

DATES: Comments must be received by August 3, 2020.

ADDRESSES: Commenters are encouraged to submit comments through the Federal eRulemaking Portal or e-mail, if possible. Please use the title “National Bank and Federal

Savings Association Digital Activities” to facilitate the organization and distribution of the comments. You may submit comments by any of the following methods:

- Federal eRulemaking Portal – Regulations.gov Classic or Regulations.gov Beta:

Regulations.gov Classic: Go to <https://www.regulations.gov/>. Enter “Docket ID OCC-2019-0028” in the Search Box and click “Search.” Click on “Comment Now” to submit public comments. For help with submitting effective comments please click on “View Commenter’s Checklist.” Click on the “Help” tab on the *Regulations.gov* home page to get information on using *Regulations.gov*, including instructions for submitting public comments.

Regulations.gov Beta: Go to <https://beta.regulations.gov/> or click “Visit New *Regulations.gov* Site” from the *Regulations.gov* Classic homepage. Enter “Docket ID OCC-2019-0028” in the Search Box and click “Search.” Public comments can be submitted via the “Comment” box below the displayed document information or by clicking on the document title and then clicking the “Comment” box on the top-left side of the screen. For help with submitting effective comments please click on “Commenter’s Checklist.” For assistance with the *Regulations.gov* Beta site, please call (877) 378-5457 (toll free) or (703) 454-9859 Monday-Friday, 9am-5pm ET or e-mail regulations@erulemakinghelpdesk.com.

- E-mail: regs.comments@occ.treas.gov.
- Mail: Chief Counsel’s Office, Attention: Comment Processing, Office of the Comptroller of the Currency, 400 7th Street, SW., suite 3E-218, Washington, DC 20219.
- Hand Delivery/Courier: 400 7th Street, SW., suite 3E-218, Washington, DC 20219.
- Fax: (571) 465-4326.

Instructions: You must include “OCC” as the agency name and “Docket ID OCC-2019-0028” in your comment. In general, the OCC will enter all comments received into the docket and publish the comments on the *Regulations.gov* website without change, including any business or personal information provided such as name and address information, e-mail addresses, or phone numbers. Comments received, including attachments and other supporting materials, are part of the public record and subject to public disclosure. Do not include any information in your comment or supporting materials that you consider confidential or inappropriate for public disclosure.

You may review comments and other related materials that pertain to this rulemaking action by any of the following methods:

- Viewing Comments Electronically – Regulations.gov Classic or Regulations.gov

Beta:

Regulations.gov Classic: Go to <https://www.regulations.gov/>. Enter “Docket ID OCC-2019-0028” in the Search box and click “Search.” Click on “Open Docket Folder” on the right side of the screen. Comments and supporting materials can be viewed and filtered by clicking on “View all documents and comments in this docket” and then using the filtering tools on the left side of the screen. Click on the “Help” tab on the *Regulations.gov* home page to get information on using *Regulations.gov*. The docket may be viewed after the close of the comment period in the same manner as during the comment period.

Regulations.gov Beta: Go to <https://beta.regulations.gov/> or click “Visit New *Regulations.gov Site*” from the *Regulations.gov* Classic homepage. Enter “Docket ID OCC-2019-0028” in the Search Box and click “Search.” Click on the “Comments” tab. Comments can be viewed and filtered by clicking on the “Sort By” drop-down on the right side of the screen or the “Refine

Results” options on the left side of the screen. Supporting materials can be viewed by clicking on the “Documents” tab and filtered by clicking on the “Sort By” drop-down on the right side of the screen or the “Refine Results” options on the left side of the screen.” For assistance with the *Regulations.gov* Beta site, please call (877) 378-5457 (toll free) or (703) 454-9859 Monday-Friday, 9am-5pm ET or e-mail regulations@erulemakinghelpdesk.com.

The docket may be viewed after the close of the comment period in the same manner as during the comment period.

- Viewing Comments Personally: You may personally inspect comments at the OCC, 400 7th Street, SW., Washington, DC 20219. For security reasons, the OCC requires that visitors make an appointment to inspect comments. You may do so by calling (202) 649-6700 or, for persons who are deaf or hearing impaired, TTY, (202) 649-5597. Upon arrival, visitors will be required to present valid government-issued photo identification and submit to security screening in order to inspect comments.

FOR FURTHER INFORMATION CONTACT: Beth Knickerbocker, Chief Innovation Officer, Office of Innovation, (202) 649-5200; Karen McSweeney, Special Counsel; Jason Almonte, Special Counsel; Matthew Tynan, Counsel; or Sarah Turney, Senior Attorney, Chief Counsel’s Office, (202) 649-5490, for persons who are deaf or hearing impaired, TTY, (202) 649-5597, Office of the Comptroller of the Currency, 400 7th Street, SW., Washington, DC 20219.

SUPPLEMENTARY INFORMATION:

I. Introduction

Over the past two decades, technological advances have transformed the financial industry, including the channels through which products and services are delivered and the

nature of the products and services themselves. Fewer than fifteen years ago, smart phones with slide-out keyboards and limited touchscreen capability were newsworthy.¹ Today, 49 percent of Americans bank on their phones,² and 85 percent of American millennials use mobile banking.³

The first person-to-person (P2P) platform for money transfer services was established in 1998.⁴ Today, there are countless P2P payment options, and many Americans regularly use P2P to transfer funds.⁵ In 2003, Congress authorized digital copies of checks to be made and electronically processed.⁶ Today, remote deposit capture is the norm for many consumers.⁷ The first cryptocurrency was created in 2009; there are now over 1,000 rival cryptocurrencies,⁸ and approximately eight percent of Americans own cryptocurrency.⁹ Today, artificial intelligence (AI) and machine learning, biometrics, cloud computing, big data and data analytics, and distributed ledger and blockchain technology are used commonly or are emerging in the banking sector. Even the language used to describe these innovations is evolving, with the term “digital” now commonly used to encompass electronic, mobile, and other online activities.

¹ Charles Arthur, *The history of smartphones: timeline*, THE GUARDIAN (Jan. 24, 2012, 3:00 PM), <https://www.theguardian.com/technology/2012/jan/24/smartphones-timeline>.

² *Tech's raid on the banks; Banking and technology*, THE ECONOMIST (May 4, 2019), <https://link.gale.com/apps/doc/A584205036/AONE?u=wash94865&sid=AONE&xid=0023c2e4>

³ Irving Wladawsky-Berger, *The Digital Revolution Comes for Banking*, THE WALL STREET JOURNAL (June 28, 2019), <https://blogs.wsj.com/cio/2019/06/28/the-digital-revolution-comes-for-banking/>.

⁴ Elizabeth Judd, *Timeline: 180 years of banking technology*, INDEPENDENT BANKER (Oct. 31, 2017), <https://independentbanker.org/2017/10/timeline-180-years-of-banking-technology/>.

⁵ *Id.* See also Tom Groenfeldt, *Real-Time Person-to-Person Payments Are On The Rise In The U.S.* FORBES (Feb. 8, 2019, 7:00 PM), <https://www.forbes.com/sites/tomgroenfeldt/2019/02/08/real-time-person-to-person-payments-are-on-the-rise-in-the-u-s-aite/#fcb030d609d0>; Jill Cornfield, *Instant payment apps grow up. They're not just for millennials anymore*, CNBC (July 14, 2018), <https://www.cnbc.com/2018/07/12/instant-payment-is-growing-up-its-not-just-for-millennials-anymore.html>.

⁶ Check Clearing for the 21st Century Act, Pub. L. 108-100, 117 Stat. 1177 (2003).

⁷ Colleen Morrison, *Protect your bank from remote deposit capture risks*, INDEPENDENT BANKER (Sept. 1, 2019), <https://independentbanker.org/2019/09/protect-your-bank-from-remote-deposit-capture-risks/>.

⁸ Bernard Marr, *A Short History of Bitcoin and Crypto Currency Everyone Should Read*, FORBES (Dec. 6, 2017, 12:28 AM), <https://www.forbes.com/sites/bernardmarr/2017/12/06/a-short-history-of-bitcoin-and-crypto-currency-everyone-should-read/#328e28a63f27>.

⁹ Annie Nova, *Just 8 percent of Americans are invested in cryptocurrencies, survey says*, CNBC (March 16, 2018, 11:48 AM), <https://www.cnbc.com/2018/03/16/why-just-8-percent-of-americans-are-invested-in-cryptocurrencies-.html>.

These technological developments have led to a wide range of new banking products and services delivered through innovative and more efficient channels in response to evolving customer preferences. Back-office banking operations have experienced significant changes as well. AI and machine learning play an increasing role, for example, in fraud identification, transaction monitoring, and loan underwriting and monitoring. And technology is fueling advances in payments. In addition, technological innovations are helping banks comply with the complex regulatory framework and enhance cybersecurity to more effectively protect bank and customer data and privacy. More and more banks, of all sizes and types, are entering into relationships with technology companies that enable banks and the technology companies to establish new delivery channels and business practices and develop new products to meet the needs of consumers, businesses, and communities. These relationships facilitate banks' ability to reach new customers, better serve existing customers, and take advantage of cost efficiencies, which help them to remain competitive in a changing industry.

Along with the opportunities presented by these technological changes, there are new challenges and risks. Banks should adjust their business models and practices to a new financial marketplace and changing customer demands. Banks are in an environment where they compete with non-bank entities that offer products and services that historically have only been offered by banks, while ensuring that their activities are consistent with the authority provided by a banking charter and safe and sound banking practices. Banks also must comply with applicable laws and regulations, including those focused on consumer protection and Bank Secrecy Act/anti-money laundering (BSA/AML) compliance. And, importantly, advanced persistent threats require banks to pay constant and close attention to increasing cybersecurity risks.

Notwithstanding these challenges, the Federal banking system is well acquainted with and well positioned for change, which has been a hallmark of this system since its inception. The OCC's support of responsible innovation throughout its history has helped facilitate the successful evolution of the industry. The OCC has long understood that the banking business is not frozen in time and agrees with the statement made over forty years ago by the U.S. Court of Appeals for the Ninth Circuit: "the powers of national banks must be construed so as to permit the use of new ways of conducting the very old business of banking."¹⁰ Accordingly, the OCC has sought to regulate banking in ways that allow for the responsible creation or adoption of technological advances and to establish a regulatory and supervisory framework that allows banking to evolve, while ensuring that safety and soundness and the fair treatment of customers is preserved.

II. Existing Regulatory Framework

For almost twenty years, OCC regulations have specifically addressed national banks' digital activities. The agency initially issued regulations in 1996 that addressed data processing activities.¹¹ In 2000, it published an ANPR seeking public comment on how to revise its regulations to further facilitate national banks' use of developing technology, noting that "rapid developments in new technologies are causing banks to reevaluate existing delivery channels and business practices and to develop new products and services in order to reach new customers, better serve existing customers, and take advantage of cost efficiencies."¹² The comments submitted in response to that ANPR formed the basis of a final rule issued in 2002 and updated

¹⁰ M & M Leasing Corp. v. Seattle First Nat. Bank, 563 F.2d 1377, 1382 (9th Cir. 1977), cert. denied, 436 U.S. 956 (1978).

¹¹ 61 FR 4849 (Feb. 9, 1996).

¹² 65 FR 4895 (Feb. 2, 2000).

in 2008.¹³ Today, these regulations, at 12 CFR part 7, subpart E, address (1) electronic activities that are part of or incidental to the business of banking;¹⁴ (2) furnishing of products and services by electronic means and facilities; (3) engaging in an electronic activity that is comprised of several component activities (composite authority); (4) the sale of excess electronic capacity and by-products; (5) acting as digital certification authority; (6) data processing; (7) correspondent services; (8) the location of a national bank conducting electronic activities; (9) the location under 12 U.S.C. 85 of national banks operating exclusively through the Internet; and (10) shared electronic space. Separate regulations at 12 CFR part 155 address (1) Federal savings associations' use of electronic means and facilities generally and (2) requirements for Federal savings associations using electronic means and facilities. The regulations in part 155 were initially issued in 1998 and substantively updated in 2001 and again in 2017.¹⁵

Over this same period, the OCC has responded on a case-by-case basis to industry requests for approval to engage in innovative, technology-driven banking activities. Such approvals in the 1990s covered Internet applications (e.g., transactional websites, commercial website hosting services, a virtual mall, an electronic marketplace for non-financial products, and Internet access services), electronic payment systems activities (e.g., electronic bill payment and presentment services, stored value systems, electronic data interchange services, and prepaid alternate media such as stamps and prepaid phone cards), and other technology-based services

¹³ 67 FR 34992 (May 17, 2002) and 73 FR 22216 (Apr. 24, 2008).

¹⁴ This provision, at 12 CFR 7.5001, identifies the criteria that the OCC uses to determine whether an electronic activity is authorized for national banks as part of, or incidental to, the business of banking under 12 U.S.C. 24(Seventh) or other statutory authority. While this section details those criteria in the context of electronic activities, the OCC uses the criteria to determine whether any activity is part of or incidental to the business of banking. To confirm the broader applicability of the criteria listed in § 7.5001, the OCC is proposing in a separate rulemaking to remove the word “electronic” from this section and move it to part 7, subpart A, as new § 7.1027. These proposed changes would better organize OCC rules and clarify that the criteria of this section may apply to any potential national bank activity, not just those that are electronic in nature. There would be no substantive effect as a result of this change.

¹⁵ 63 FR 65673 (Nov. 30, 1998), 66 FR 12993 (Mar. 2, 2001), and 82 FR 8082 (Jan 23, 2017).

(e.g., digital certification authority services and electronic correspondent banking services).¹⁶

More recently, the OCC issued a preliminary conditional approval for a full-service national bank with a nationwide footprint that proposes to offer banking products through mobile, online, and phone-based banking channels.¹⁷ The OCC also approved a request for confirmation that a national bank may participate as a funding participant in a real-time payment system for small dollar, irrevocable payment services.¹⁸

In 2015, the OCC launched an initiative to better understand the role of innovation in financial services and to determine what actions the agency could take in response to this dynamic environment. The OCC subsequently implemented a “responsible innovation” framework designed to ensure that national banks and Federal savings associations have a regulatory structure that is receptive to innovation and that the agency’s supervisory approach appropriately accounts for the opportunities and risks of changing business models and new products, services, and processes.¹⁹

The OCC also established a dedicated Office of Innovation that serves as a central point of contact for interested parties and a clearinghouse for innovation-related matters. This Office works to increase OCC awareness and understanding of industry trends and issues, such as the use of AI and machine learning, payment developments, the evolution of lending, and relationships between banks and technology companies. The Office of Innovation also assists both OCC-supervised banks and nonbanks with understanding the agency’s expectations

¹⁶ Specific citations for these approvals are in OCC’s 2000 ANPR. See *supra* note 12, at 4895-96, fns. 4-6.

¹⁷ Conditional Approval No. 1205 (Aug. 31, 2018).

¹⁸ Interpretive Letter No. 1157 (Nov. 12, 2017).

¹⁹ OCC, RECOMMENDATIONS AND DECISIONS FOR IMPLEMENTING A RESPONSIBLE INNOVATION FRAMEWORK (2016), <https://www.occ.treas.gov/topics/supervision-and-examination/responsible-innovation/comments/recommendations-decisions-for-implementing-a-responsible-innovation-framework.pdf>.

regarding safe and sound operations, fair access to financial services, and fair treatment of customers.

III. Regulatory Review

As part of its on-going efforts to remain responsive to the evolution of the Federal banking system, the OCC is undertaking a comprehensive review of 12 CFR part 7, subpart E, and part 155.²⁰ The goals of this review are to evaluate whether these regulations effectively take into account the ongoing evolution of the financial services industry, promote economic growth and opportunity and ensure that banks operate in a safe and sound manner, provide fair access to financial services, treat customers fairly, and comply with applicable laws and regulations.

As part of this review, the OCC invites the public, including members of the financial service and technology sectors and consumer groups, to share their experiences and ideas. Based on the comments received, the OCC may propose specific revisions to its rules, on which it would again seek public comment. It should be noted that certain principles guide the OCC's approach to its regulatory framework in the context of technology and innovation. First, any regulation adopted should be technology-neutral, so that products, services, and processes can evolve regardless of the changes in technology that enables them. Second, any regulation should facilitate appropriate levels of consumer protection and privacy, including features that ensure transparency and informed consent. Finally, regulations on digital activities should be principle-based, rather than prescriptive, to enable effective management of evolving risks and to reduce the potential that the regulations quickly become outdated.

²⁰ As a companion to this ANPR, the OCC is separately issuing a Notice of Proposed Rulemaking, published elsewhere in this issue of the **Federal Register** as a separate document, that proposes amendments to subparts A through D of Part 7 that would clarify and codify recent OCC interpretations, integrate certain regulations for national banks and Federal savings associations, and update or eliminate outdated regulatory requirements that no longer reflect the modern financial system.

IV. Issues for Comment

The public is invited to respond to the following questions and offer comments or suggestions on any other banking issues related to digital activities, use of technology, or innovation. The OCC is not seeking comment on its authority to issue a special purpose national bank charter.

1. Considering the financial industry's evolution, are the OCC's legal standards in part 7, subpart E, and part 155 sufficiently flexible and clear? Should the standards be revised to better reflect developments in the broader financial services industry? If so, how?
2. Do any of the legal standards in part 7, subpart E, or part 155 create unnecessary hurdles or burdens to the use of technological advances or innovation in banking?
3. Are there digital banking activities or issues related to digital banking activities that the OCC does not address in part 7, subpart E, or part 155 that the OCC should address? If so, what are these activities or issues, and why and how should the OCC address them?
 - a. Are there digital finders' activities (i.e., activities that bring together buyers and sellers of financial and nonfinancial products and services) in which financial services companies engage or banks wish to engage that are not included or sufficiently addressed 12 CFR part 7, subpart E, or part 155? If so, what are they?
 - b. Is there software that a bank produces, markets, or sells (or wishes to produce, market, or sell) that is not within the current scope of, or sufficiently addressed in, 12 CFR part 7, subpart E, or part 155? If so, what type of software?

- c. Does the term “software,” as used in 12 CFR 7.5006, exclude a similar product or service that should be included in this section? If so, what is the similar product or service, and why should it be included?
- d. Are there digital activities that banks offer, or wish to offer, as correspondent services to its affiliates or other financial institutions that are not included or sufficiently addressed in 12 CFR part 7, subpart E, or in part 155? If so, what are they?
4. What types of activities related to cryptocurrencies or cryptoassets are financial services companies or bank customers engaged? To what extent does customer engagement in crypto-related activities impact banks and the banking industry? What are the barriers or obstacles, if any, to further adoption of crypto-related activities in the banking industry? Are there specific activities that should be addressed in regulatory guidance, including regulations?
5. How is distributed ledger technology used, or potentially used, in banking activities (e.g., identity verification, credit underwriting or monitoring, payments processing, trade finance, and records management)? Are there specific matters on this topic that should be clarified in regulatory guidance, including regulations?
6. How are AI techniques, including machine learning, used or potentially used in activities related to banking (e.g., credit underwriting or monitoring, transaction monitoring, anti-money laundering or fraud detection, customer identification and due diligence processes, trading and hedging activities, forecasting, and marketing)? Are there ways the banking industry could be, but is not, using AI because of issues such as regulatory complexity, lack of transparency, audit and audit trail

- complexities, or other regulatory barriers? Are there specific ways these issues could be addressed by the OCC? Should the OCC provide regulatory guidance on this use, including by issuing regulations?
7. What new payments technologies and processes should the OCC be aware of and what are the potential implications of these technologies and processes for the banking industry? How are new payments technologies and processes facilitated or hindered by existing regulatory frameworks?
 8. What new or innovative tools do financial services companies use to comply with applicable regulations and supervisory expectations (i.e., “regtech”)? How does the OCC’s regulatory approach enable or hinder advancements in this area?
 9. Are there issues unique to smaller institutions regarding the use and implementation of innovative products, services, or processes that the OCC should consider?
 10. What other changes to the development and delivery of banking products and services for consumers, businesses and communities should the OCC be aware of and consider?
 11. Are there issues the OCC should consider in light of changes in the banking system that have occurred in response to the COVID-19 pandemic, such as social distancing?

Brian P. Brooks,

Acting Comptroller of the Currency

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