

The White House Executive Order on Integrating Financial Technology Innovation into Regulatory Frameworks -- Also, is Fintech Geopolitical?

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On May 19, the White House released a unique executive order outlining the Administration's plan to promote fintech innovation. Given the complexity of existing financial regulatory frameworks, there is reason to be skeptical that this effort results in major changes in the short term. But in light of the broad directives, the banking and

fintech communities should stay close to the process.

Alongside the domestic regulatory focus, the executive order is framed as important to America's leadership in the world. So is fintech strategic geopolitically?

Groundbreaking Directives

The order directs the six Federal financial regulators (CFPB, SEC, NCUA, CFTC, FDIC, and OCC) to review their regulations, guidance, and no-action letters within 90 days and to take steps to encourage fintech innovation within 180 days. This is a lot to undertake over a short period of time, and much could come of it.

While we wait to see those results, a more specific and ground-breaking request is to the Board of Governors of the Federal Reserve System (FRB) to undertake a comprehensive evaluation to explore expanded access to *"Reserve Bank payment accounts and payment services by uninsured depository institutions and non-bank financial companies, including those engaged in digital assets and other novel financial activities (collectively, **covered firms**) . . ."*

If this request has the intended results, we could see a major expansion of financial services in the U.S. as fintechs and other types of "covered firms" rush in to have direct

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access to the Fed's payment rails. That might propel innovation and additional players, as fintechs are motivated to capture margin currently shared with sponsor banks, leading to more and more entrants.

Of note: the day after the EO, the Federal Reserve announced a proposal to create a special purpose payment account that would allow eligible financial institutions, including non-traditional depository institutions, to apply for Fed accounts through which to process payments. It does not technically change the scope of who is legally eligible for an account; however, it proposes a stripped-down account type. Uninsured depository institutions (such as some state chartered crypto organizations) have had limited success receiving approval to access payment accounts in the past. This proposes to change that.

What Does this Mean for Banks' Regulatory Moat

While it is a bold EO, I am skeptical of material regulatory changes coming out of this EO, at least in the short-term. Here is why. For a very long time, banks have been utilized as quasi-regulators in the financial system. Banks are required to run KYC checks, screen sanctions lists, flag suspicious activity and much more. That relationship won't change anytime soon. Asking a 3-person fintech dashboard startup to take these on is impractical, and so the regulatory moat is a deep and wide one. The Fed's own proposal underscores this point: payment-account holders would be expected to police illicit-finance risks themselves, so direct access shifts the compliance burden onto the fintech rather than removing it. (I read an interesting article from a fintech founder this week making some of these points with respect to the entry of AI into financial services).

In short, this executive order is pushing financial regulators to bridge that regulatory moat and open access for fintechs into financial systems that historically have been left to banks. I don't know how much is possible in the near future. However, I expect the agencies will come back with proposals, partial work-arounds, exceptions and sandbox opportunities that could certainly accumulate into meaningful expansions of opportunity for fintechs.

Fintech Geopolitics?

I may be reading too much into it, but the EO's fact sheet comments repeatedly on the importance of ensuring U.S. leadership in fintech, in digital assets and "other cutting-edge technologies." Is this just generic we-ought-to-lead-the-world-in-everything sentiment or is it part of the concern that our leadership in AI and other frontier technologies could be existential?

I suppose it is somewhere in the middle. The position of the dollar as the world's reserve currency has long been a structural advantage, and in many ways it relies on the strength of the U.S.' financial system. Leadership on innovative financial technologies is a growingly significant component.