



Testimony of Paul Grewal
Chief Legal Officer

Before the U.S. House Committee on Financial Services
Subcommittee on Oversight and Investigations

Thursday, February 6, 2025

Chair Meuser, Ranking Member Green, and distinguished members of the committee:

Thank you for the opportunity to testify today. My name is Paul Grewal, and I serve as Chief Legal Officer at Coinbase, the largest publicly traded cryptocurrency company in the United States.

Today, I want to shed light on the systematic effort to debank the American crypto industry, and then deny it the legal protections afforded by Congress and the courts. While crypto is the current target, any legal American industry could be next if regulators continue to use banking services as a political weapon. This attack on banking services spans multiple agencies and dates back more than four years.

I am going to highlight the actions of one particular agency, the FDIC. As I will explore, as early as March 2022, the FDIC began sending dozens of letters to senior members of financial institutions directing them to “pause all crypto asset-related activity” regardless of type or materiality with unspecified timelines for agency review.¹ In April 2022, the FDIC formally required that these institutions self-report any proposed crypto-asset activity, again regardless of type or materiality.² In January 2023, it obfuscated these efforts by joining other regulators in declaring that “banking organizations are neither prohibited nor discouraged from providing banking services to customers of any specific class or type, as permitted by law or regulation.”³ And in October 2023, in response to a finding by its Inspector General that it had, to date, completed no crypto-asset risk assessments or provided any timelines for reviewing any identified crypto activities, it committed to finally doing so in less than six months.⁴ Eighteen months later, no such assessments or timelines have been publicly identified.

This attack illustrates a fundamental issue that transcends the debate over cryptocurrency: the lack of transparency and accountability in regulatory practices. Although some may argue that regulators should assess whether engaging in crypto-related products and services could impact a bank’s safety and soundness, this should not justify allowing anti-crypto bias to hinder a legal industry. Rather than starting with the assumption that engaging in crypto is inherently problematic, regulators should approach the issue openly, with the goal of identifying practical solutions and promoting innovation. I will close my testimony with proposals that will help reverse the debanking trend of recent years, and open up banking services for crypto to financial services companies and crypto companies alike.

¹ Appendix C, *History Associates Inc. v. FDIC*, No. 1:24-cv-1857-ACR (D.D.C.) (“FDIC FOIA Litigation”), Docket Entry 27-2, March 11, 2022 FDIC Pause Letter.

² FDIC, Financial Institution Letter (FIL) 16-2022, *Notification of Engaging in Crypto-Related Activities* (issued April 7, 2022), <https://www.fdic.gov/news/financial-institution-letters/2022/fil22016.html#letter>

³ Federal Reserve, FDIC, and OCC, *Joint Statement on Crypto-Asset Risks to Banking Organizations* (January 3, 2023), available at <https://www.fdic.gov/news/press-releases/2023/pr23002a.pdf>.

⁴ Appendix A, FDIC Office of Inspector General, *FDIC Strategies Related to Crypto-Asset Risks* (Oct. 2023) (“OIG Report”), pp. ii-iii, <https://tinyurl.com/3kudyxyn>.

Background on Coinbase's Experience

Coinbase has always operated with a commitment to compliance, transparency, and innovation. We educate policymakers, regulators, and the public on cryptocurrency, advocate for diversification in financial services, and aim to build a future where financial systems work better for everyone. Founded in 2012 in the United States and publicly listed on the NASDAQ in April 2021, we have grown to serve millions of users across over 100 countries, offering a secure and user-friendly interface for both retail and institutional investors. We are committed to building an open financial system for the world and operate with strong regulatory compliance, security protocols, and innovative features to ensure a seamless and trustworthy user experience.

Coinbase is currently regulated by more than 50 regulators in the U.S. alone: we are a money services business registered with the US Treasury Department and subject to Financial Crimes Enforcement Network (FinCEN) rules, and we have served on the Department of the Treasury's Bank Secrecy Act (BSA) Advisory Group. We have 45 state money transmission licenses, and a BitLicense and state trust charter from the New York Department of Financial Services (NYDFS). We are a licensed designated contract market (DCM) and a futures commission merchant (FCM) regulated by the CFTC, and Coinbase Asset Management is a registered investment advisor under the SEC. Internationally, we are also subject to regulatory supervision in a number of markets, including the United Kingdom, European Union, and Singapore; these regulators also have a heavy focus on financial crimes and mandate implementation of strong AML programs.

Despite our commitment to regulation and growing the American crypto economy in a safe and responsible way, over the past two years we have witnessed and encountered unprecedented challenges from coordinated regulatory actions that seek to paralyze cryptocurrency. These efforts often took place in the shadows, without the benefit of public awareness, input, or debate. As a publicly-traded company with strong bank partners who are willing to engage with our team on important due diligence questions and better understand how Coinbase operates, we have been successful in managing the attack. But many others with far fewer resources have not been so fortunate.

Coinbase takes seriously our obligation to help fight for the future not just for ourselves, but for the entire crypto economy. Over the last two years, Coinbase has heard stories of both crypto companies and employees who have been victims of debanking. They are compelling and powerful, and it spurred us to act.

In light of this unprecedented assault on an entire industry, Coinbase took the unusual step of not only filing Freedom of Information Act (FOIA) requests in relation to these inappropriate regulatory actions, but also suing the regulators in court when they stonewalled us.

The Players and the Campaign Against Crypto

To understand the scope of this campaign, it's important to identify the key players and tactics:

- **Regulators:** In response to executive orders, policy shifts, and joint statements, the FDIC and other regulators have taken a decidedly hostile stance toward crypto.
- **Banks and Financial Institutions:** Banks have been pressured behind closed doors to halt any crypto activities (including facilitating basic Bitcoin transactions), and sever ties with crypto companies, limiting their access to essential financial services.
- **Crypto Companies, Employees, and Investors:** The resulting regulatory uncertainty has disrupted businesses, displaced employees, and created unnecessary risks for millions of Americans.

Defining Debanking

Debanking is not a new concept in the United States and refers to the practice of financial institutions denying or restricting access to banking services like opening accounts, processing transactions, and securing loans to individuals, businesses, or entire industries. Historically this has happened for regulatory, political, or reputational reasons, even if the affected entity is operating legally.

In the case of the crypto industry, debanking has occurred in recent years due to banks and financial regulators systematically limiting or cutting off crypto-related businesses from essential banking services. This activity has included:

- **Account closures or denial:** Banks refusing to open or maintain accounts for crypto companies.
- **Restricted services:** Limiting access to payment processing, loans, or wire transfers.
- **Regulatory pressure:** Agencies like the FDIC, SEC, or Federal Reserve – as we have noted and will explore further – discouraging banks from working with crypto firms through informal guidance or behind-the-scenes influence.

Debanking has historically been used against politically sensitive industries, such as firearms and cannabis, and is now being leveraged against crypto firms, potentially setting a dangerous precedent for other industries.

Timeline of FDIC Actions to Debank Crypto Companies

The FDIC regulatory attack on crypto started as early as March 2022 by putting pressure on financial institutions to refuse banking services to crypto companies, refuse to expand services and products for existing clients, fully suspend services and products for existing crypto customers, and lock down their own internal blockchain activities.

1. **FDIC “Pause Letters” (March 2022):** The FDIC started sending confidential “pause letters” to banks, instructing them to cease engaging in crypto-related activities, including facilitating basic Bitcoin transactions. These letters, which targeted senior executives, effectively forced financial institutions to halt crypto-related projects and partnerships with crypto companies without clear explanations or timelines for reassessment.

2. **Banking Regulators Publicly Denied Discouraging Banks From Providing Banking Services of Any Type (January 2023):** The Federal Reserve, FDIC, and Office of the Comptroller of the Currency (OCC) issued a joint statement warning banks about the risks of engaging with cryptocurrency companies. But mindful of the absence of any legal authority to issue any blanket ban and, in direct contradiction with the pause letters the FDIC was sending, the joint statement said that “Banking organizations are neither prohibited nor discouraged from providing banking services to customers of any specific class or type, as permitted by law or regulation.”⁵ Many financial institutions began severing ties with crypto businesses out of fear of regulatory repercussions.
3. **Inspector General Report (October 2023):** After reviewing the FDIC’s strategies related to crypto-asset risk, the Office of Inspector General found that “the FDIC has not yet completed a risk assessment to determine whether the Agency can sufficiently address crypto-asset-related risks through actions such as issuing guidance to supervised institutions. In addition, the FDIC’s process for providing supervisory feedback on FDIC-supervised institutions’ crypto-related activities is unclear.” Rather than dispute these findings, the FDIC concurred with both report recommendations to correct these deficiencies, with a committed plan to do so by January 30, 2024.⁶
4. **Congressional Request and Lack of Response (2023):** Members of Congress sought transparency from regulators, sending a letter⁷ requesting clarification on regulatory actions affecting crypto companies. This letter received no substantive public response, leaving critical questions unanswered. The lack of engagement from regulators fueled concerns about the opacity and bias of the regulatory process.
5. **Coinbase FOIA Litigation (2023–2024):** Coinbase and others filed FOIA requests to uncover the rationale behind regulatory actions targeting the crypto industry. However, these requests were met with intense resistance, stonewalling, and excessive redactions. Court interventions were required to force the release of information, exposing a troubling reluctance by regulators to operate transparently.

Coinbase’s FOIA Request

Coinbase Files FOIA Requests to Uncover Anti-crypto Debanking Efforts

At Coinbase, we believe in the necessity for fair regulations in the cryptocurrency industry. In fact, we have gone to court to fight for rules for crypto and have urged Congress to pass crypto legislation on market structure and stablecoins.⁸ Critical to any effective regulatory scheme is responsible regulatory oversight. In October 2023, the FDIC’s own Office of Inspector General Report criticized the FDIC for “limit[ing] financial institution innovation and growth in the crypto

⁵ Federal Reserve, FDIC, and OCC, *Joint Statement on Crypto-Asset Risks to Banking Organizations* (January 3, 2023), available at <https://www.fdic.gov/news/press-releases/2023/pr23002a.pdf>.

⁶ Appendix A, OIG Report, pp. ii-iii.

⁷ Letter to Prudential Regulators Regarding Efforts to De-Bank the Digital Asset Ecosystem. Reps. McHenry, Hill, <https://financialservices.house.gov/news/documentsingle.aspx?DocumentID=408737>

⁸ Testimony by Paul Grewal, House Agriculture Committee, June 6, 2023. <https://docs.house.gov/meetings/AG/AG00/20230606/116051/HHRG-118-AG00-Wstate-GrewalP-20230606.pdf>; *Coinbase, Inc. v. SEC*, No. 23-3202, 2025 WL 78330 (3d Cir. Jan. 13, 2025).

space” by sending confidential letters asking financial institutions to pause ongoing or new crypto-related activities.⁹

The report found that “the FDIC has not yet analyzed the crypto-asset risks and documented its assessment of them. Specifically, the FDIC has not assessed their significance in order to determine the magnitude of impact, likelihood of occurrence, and nature of the risks. Also, the FDIC has not developed mitigation strategies, such as issuing guidance to financial institutions, to ensure that risks are within the defined risk tolerance.”¹⁰ The report also noted that “if the FDIC does not assess the significance of the risks posed by crypto assets, it might not take appropriate actions to address them. The FDIC should conduct risk assessments as a basis to develop mitigation strategies. Without a risk assessment, the FDIC may not develop and issue effective policies, procedures, and guidance to address these risks. If the FDIC does not provide its supervised institutions with effective guidance, the FDIC and some FDIC-supervised institutions may not take appropriate actions to address the most significant risks posed by crypto assets. This could impact the FDIC’s mission to promote financial stability.”¹¹

All this made clear that these closed-door, anti-crypto efforts had reached a point that could no longer be tolerated. Coinbase, through a company known for its FOIA expertise, filed multiple FOIA requests with the FDIC and other government agencies to shed light on this conduct. FOIA is a foundational tool enacted by Congress to promote transparency and accountability in government. Importantly, FOIA is the law that allows the public to request access to federal agency records, including documents that illuminate government decisions and operations, unless they are exempt by law for reasons such as national security or personal privacy. What we have learned through these FOIA requests about the FDIC’s efforts to pressure financial institutions, and from the FDIC’s own conduct in attempting to prevent this information from coming to light, has been particularly troubling.

After we filed a FOIA request with the FDIC in November 2023 asking for copies of all the ‘pause letters’ described in the Inspector General’s Report, the FDIC denied the request in full by attempting to hide behind the supposed application of FOIA exemptions based on supposed claims of “confidential supervisory information,” apparently without searching for those documents or considering whether they could be provided in redacted form. We then brought an administrative appeal of that finding, explaining that even if FOIA exemptions applied to part of these pause letters, there must be some material that could be provided in redacted form, consistent with FOIA’s principles of transparency and respectful of the FDIC’s interests. But the FDIC doubled down and denied our appeal in full, again inappropriately hiding behind broad claims of confidential supervisory information.

Coinbase Sues the FDIC in Federal Court for Violating FOIA

In June 2024, Coinbase sued the FDIC in federal district court for violating FOIA by entirely withholding the pause letters. The FDIC continued to resist disclosing a single word of any

⁹ Appendix A, OIG Report, p.13.

¹⁰ *Id.* at p.10.

¹¹ *Id.* at p.10.

pause letter, claiming without specificity that disclosure would harm banks and the agency. We argued to the court that the FDIC should be able to provide the pause letters in redacted form in a way that shields the names of particular banks and other legitimate confidential supervisory information. The court agreed, and in September 2024, instructed the FDIC to provide within 30 days the pause letters with appropriate redactions. Thirty days later, the FDIC inexplicably did not provide any pause letters. After Coinbase brought this to the court's attention, the court reinforced its prior order and required the FDIC to make redactions and produce the pause letters.

In November, the FDIC provided highly redacted versions of the pause letters, leaving unredacted a smattering of words with little substance, making them nearly incomprehensible.¹² At Coinbase's request, the court itself reviewed the unredacted versions of some of the pause letters and was far from satisfied. The court ordered the FDIC to "re-review the documents" and "make more thoughtful redactions."¹³ The court explicitly stated that it was "concerned with what appears to be FDIC's lack of good-faith effort in making nuanced redactions" and said that the FDIC "cannot simply blanket redact everything that is not an article or preposition."¹⁴ As a former federal magistrate judge, I know that words like these carry great weight.

The Court Ordered Disclosures Reveal a Pattern and Practice of Troubling FDIC Anti-Crypto Pressure on Banks

After more than a year of seeking these pause letters, with the FDIC opposing us each step of the way, the FDIC finally provided them in a form that reveals some of the underlying substance of those letters. The picture that they paint is one of a long-running, indiscriminate, and secretive campaign by the FDIC to prevent banks from using or offering a wide range of crypto products and services.

The letters¹⁵ speak for themselves:

- April 15, 2022: A bank is asked to "pause all crypto asset-related activity" related to a proposed product that would have offered "bank customers access to Bitcoin and Ethereum through the bank's mobile app." (Letter 6)
- May 4, 2022: A bank is asked "not [to] implement [a] product" that "would provide bank customers an avenue to engage in crypto asset transactions, specifically the purchase and sale of Bitcoin, using the bank's mobile banking application." (Letter 9)
- August 26, 2022: The FDIC requests that a bank "refrain from providing" a service to its customers that would have allowed "customers the ability to buy, hold, and sell bitcoin." (Letter 18)
- September 9, 2022: The FDIC asked that a bank "not proceed with planned activities" until the FDIC completed its review, after the bank informed the FDIC that it was "developing a Digital Asset department...to implement the following crypto-asset

¹² Appendix B, FDIC FOIA Litigation, Docket Entry 26-1.

¹³ FDIC FOIA Litigation, December 12, 2024 Minute Order.

¹⁴ *Id.*

¹⁵ Appendix C, FDIC FOIA Litigation, Docket Entry 27-2.

services for bank customers: custodian services...; facilitation of buying and selling crypto-assets...; and, allowing customers to spend/withdraw bitcoin.” (Letter 19)

- October 17, 2022: “[T]he Bank acquired three types of crypto-assets and subsequently exchanged less than \$25,000 in crypto-assets for Non-Fungible Tokens (NFT)...Until we complete our review, we request the Bank refrain from purchasing additional crypto-assets and NFTs.” (Letter 22)
- May 5, 2023: Upon receiving a bank’s notice of its intent to provide a bank account to a third party “for the purpose of holding deposit reserves corresponding to [the third party’s] issuance of a stablecoin”, the FDIC told the bank that it “should not proceed with any crypto-asset activity until” an unspecified time at the FDIC’s discretion. (Letter 25)

Beyond these examples, the FDIC sent more than a dozen additional letters similarly asking financial institutions to pause crypto-related projects with unspecified review periods. And one particularly sinister aspect of these letters is that they were often sent to senior leadership at financial institutions, such as the Board of Directors, not lower level employees who typically interact with regulators about day-to-day operations. We think this was intended to send a message to bank leadership and the entire industry: engage with crypto at your own peril.

These FDIC actions have been carried out away from public scrutiny, without input from industry players. This behind-the-scenes bias against crypto not only has undermined the principles of a transparent government but has also stymied the growth and potential of the digital economy. What’s more, while the FDIC was sending these pause letters, the FDIC and other banking regulators were publicly denying that they were discouraging banking organizations from providing banking services to customers for any type of lawful activity.¹⁶

Whether you are a crypto enthusiast or a skeptic, the lack of transparency in these regulatory actions and the contradictions between what was happening privately versus what the regulators were saying publicly should alarm everyone. It is essential for all parties to recognize this issue and address it head-on, especially when regulatory actions are justified under the guise of guarding against vague concerns of systemic risk without clear timelines for lifting pauses that left regulated entities in bureaucratic limbo.

The FDIC Still Has Not Remediated These Issues

The FDIC’s OIG Report initially highlighted these problems and made two specific recommendations for the FDIC to remediate these issues: (1) “establish a plan with timeframes for assessing risks pertaining to crypto-related activities”; and (2) “update and clarify the supervisory feedback process related to its review of supervised institutions’ crypto-related

¹⁶ Federal Reserve, FDIC, and OCC, *Joint Statement on Crypto-Asset Risks to Banking Organizations* (January 3, 2023), available at <https://www.fdic.gov/news/press-releases/2023/pr23002a.pdf> (“Banking organizations are neither prohibited nor discouraged from providing banking services to customers of any specific class or type, as permitted by law or regulation.”); Federal Reserve, FDIC, and OCC, *Joint Statement on Liquidity Risks to Banking Organizations Resulting from Crypto-Asset Market Vulnerabilities* (Feb. 23, 2023), available at <https://bit.ly/3FJ7QbS> (same quote).

activities.”¹⁷ The FDIC agreed with both recommendations and proposed to complete all corrective actions by January 30, 2024.¹⁸

Despite it being more than a year since the FDIC stated that it would complete these corrective actions, the FDIC OIG’s website makes clear that this recommendation remains unimplemented as of today.¹⁹ And although the FDIC recently publicized an internal memorandum that purports to address this issue by instructing its regional offices to establish supervisory timeframes, the FDIC still has not *itself* established those timeframes (as the FDIC OIG recommended) and has provided only vague guidance to its regional offices on the issue.²⁰ This is the exact type of willful inaction and feet-dragging that forces crypto companies to languish in regulatory purgatory.

The FDIC’s internal memorandum also purports to address the FDIC OIG’s second recommendation. But that memorandum was made public only recently—and only because the agency released it reactively in response to a FOIA request.²¹ Prior to that, it was not at all clear to the public how the FDIC updated and clarified the supervisory feedback process related to its review of supervised institutions’ crypto-related activities. And even in the memo, the FDIC only half-heartedly addresses the FDIC OIG’s concerns in a few sentences. If the FDIC OIG felt this issue was important enough to issue its public report and propose corrective action, it should have been important enough for the FDIC to publicly explain—immediately and in detail—how it corrected its behavior, instead of leaving crypto companies and financial institutions in the dark.

Why This Matters

The FOIA litigation against the FDIC highlights four broader concerns about regulatory overreach and transparency:

1. **Lack of Transparency:** Regulators’ refusal to disclose information undermines public trust in their decision-making processes. The absence of transparency prevents meaningful oversight and accountability.
2. **Bias in Regulatory Actions:** The underlying anti-crypto pressure and reluctance to provide information suggest that regulatory actions may have been influenced by bias or hidden agendas rather than objective assessments of risks.
3. **Impact on the Crypto Industry:** The confidential nature of the FDIC’s ‘pause letters’ and other supervisory actions has created a chilling effect on banks and other financial institutions, making it more difficult for crypto companies to operate in the United States.

¹⁷ Appendix A, OIG Report, pp. ii-iii.

¹⁸ *Id.*

¹⁹ FDIC OIG List of Unimplemented Recommendations, as of February 4, 2025, <https://www.fdicoin.gov/unimplemented-recommendations>

²⁰ <https://www.fdic.gov/foia/fdic-memorandum-procedures-reviewing-notifications-engagement-crypto-related-activities>

²¹ <https://www.fdic.gov/foia/foia-reading-room> (listing the internal memorandum among documents disclosed in response to FOIA requests)

4. **Broader Implications for Regulatory Accountability:** Coinbase’s litigation serves as an example of how regulators can act unilaterally and in secret to marginalize a legal industry without being held accountable.

Outcome and Current Status

As of now, our FOIA litigation has forced the FDIC to release some documents, but the process remains ongoing. The released materials have provided glimpses into how the FDIC applied pressure on financial institutions behind closed doors, but significant questions remain unanswered due to continued stonewalling. And following a recent hearing, the Court agreed with Coinbase that the FDIC incorrectly interpreted our FOIA request narrowly and ordered the FDIC to search for and produce any additional pause letters that it has not already provided by the end of this week.²²

Coinbase’s FOIA requests and subsequent litigation against the FDIC are not just about accessing documents—they’re about holding regulators accountable for their actions. The outcome of this legal battle will have significant implications for the future of cryptocurrency in the U.S., as well as for the broader principles of transparency and fairness in regulatory practices.

A New Day

Despite these challenges, I remain optimistic about the future of cryptocurrency in America. We can turn the page and embrace a new day, one where innovation and consumer protection coexist. In order to achieve this goal, we need to facilitate access to banking services, which means starting with the banking agencies and the ability of banks to engage in crypto related activity. To that end, on February 3, 2025, Coinbase submitted a detailed letter to the OCC, the Federal Reserve Board, and the FDIC urging the agencies to eliminate barriers that prevent banks from offering cryptocurrency custody and execution services (C&E Services). We emphasized that these specified services can be safely provided on behalf of customers using new technologies and should be allowed to be outsourced to third-party providers like Coinbase under clear regulatory guidance and supervisory standards that are already in place.

Coinbase specifically requests the withdrawal of OCC Interpretive Letter 1179,²³ which imposes a de facto application process before new cryptocurrency banking activities may be undertaken or offered by any national bank. As used in practice, this letter conflicts with previous OCC Interpretive Letters 1170, 1172, and 1174, which describe the well-established legal basis supporting the permissibility of crypto-related activities for national banks. The withdrawal of IL 1179 would reaffirm national banks’ authority to provide crypto custody services and facilitate

²² FDIC FOIA Litigation, January 22, 2025 Minute Order.

²³ *Interpretive Letter #1179, Chief Counsel’s Interpretation Clarifying: (1) Authority of a Bank to Engage in Certain Cryptocurrency Activities; and (2) Authority of the OCC to Charter a National Trust Bank*, November 18, 2021, <http://occ.gov/topics/charters-and-licensing/interpretations-and-actions/2021/int1179.pdf>

related transactions, thereby aligning with established legal precedents and promoting technological innovation in banking.

We argue state banks that are members of the Federal Reserve System, consistent with the Federal Reserve’s Policy Statement,²⁴ should also be allowed to engage in the same cryptocurrency activities as national banks without additional constraints, provided these activities are authorized by state law. This is the stance the Federal Reserve ordinarily applies to ensure the equal treatment of national and state bank activities, regardless of the supervising agency, to help level the competitive playing field and mitigate risks of regulatory arbitrage. This principle supports state banks’ rights to offer and outsource C&E Services in line with national banks’ capabilities, and subject to appropriate third-party risk management practices being established.

Federal law similarly empowers state nonmember banks to engage in C&E Services and related outsourcing agreements if authorized by state law. Coinbase points out that the FDIC’s current guidance, particularly FDIC Interpretive Letter 16-2022 (“FIL 16-2022”)²⁵, has been applied in a manner inconsistent with its past practices for equivalent prior notice processes and effectively hinders these banks from participating in legally permissible cryptocurrency activities. By removing such restrictions, state nonmember banks would be better positioned to integrate cryptocurrency C&E Services into their customer offerings, benefiting from new technologies while adhering to established safety and soundness principles.

Coinbase’s letter ultimately urges the banking agencies to support the withdrawal of IL 1179, reaffirm that existing laws and regulations permit banks to provide and outsource cryptocurrency C&E Services, and clarify banks’ abilities to use new technologies through outsourcing relationships, subject to appropriate risk management standards being established. These actions would eliminate regulatory uncertainties for banks, foster collaboration between banks and third-party providers, and promote a robust, innovative financial system for crypto companies across the country. By aligning with existing legal frameworks and President Trump’s January 23rd Executive Order on Digital Financial Technology, the agencies can ensure that the U.S. remains a leader in financial innovation.

Conclusion

The lack of transparency, the extensive coercive tactics, and the egregious abuse of regulatory processes not only harm the crypto industry but also erode public trust in our institutions. America has always been a leader in innovation, and we must not allow these efforts to stifle our progress. This committee should be commended for exploring both the harms done by the banking regulators, and the need for reform. We suggested a few actions the regulators could

²⁴ FRB Policy Statement on Section 9(13) of the FRA, 88 Fed. Reg. 7848 (Feb. 7, 2023) (“Policy Statement”); 12 C.F.R. § 208.112.

²⁵ FDIC Interpretive Letter 16-2022, *Notification of Engaging in Crypto-Related Activities*, April 7, 2022. <https://www.fdic.gov/news/financial-institution-letters/2022/fil22016.html>

take to reverse the harmful effects of debanking, but we also urge this committee to consider additional measures that would improve transparency and public input within the agencies.

Thank you to both sides of the aisle for your continued commitment to ensuring the United States remains at the forefront of financial and technological innovation, and I look forward to your questions.

Appendix A



FDIC Strategies Related to Crypto-Asset Risks

October 2023

EVAL-24-01

Evaluation Report
Audits, Evaluations, and Cyber

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**REDACTED VERSION
PUBLICLY AVAILABLE**

The redactions contained in this report are based upon requests from FDIC senior management to protect the Agency's information from disclosure.



NOTICE

Pursuant to Pub. L. 117-263, section 5274, non-governmental organizations and business entities identified in this report have the opportunity to submit a written response for the purpose of clarifying or providing additional context to any specific reference. Comments must be submitted to comments@fdicoig.gov within 30 days of the report publication date as reflected on our public website. Any comments will be appended to this report and posted on our public website. We request that submissions be Section 508 compliant and free from any proprietary or otherwise sensitive information.



Executive Summary

FDIC Strategies Related to Crypto-Asset Risks

According to a September 2022 White House Fact Sheet, millions of people globally, including 16 percent of adult Americans, have purchased crypto assets. The Fact Sheet also stated, crypto assets “present potential opportunities to reinforce the U.S. leadership in the global financial system and remain at the technological frontier.” Executive Order 14067 (March 2022) stated that the U.S. has an interest in responsible financial innovation and expanding access to safe and affordable financial services using crypto assets. The Executive Order also stated that the U.S. has an interest in reducing the cost of domestic and cross-border funds transfers and payments and modernizing its public payment systems, which may be possible through the use of crypto assets.

While crypto assets present many potential opportunities and benefits, they also pose a number of risks to the U.S. financial system. In recent years, the crypto-asset sector has experienced significant volatility. The total market capitalization of crypto assets fluctuated from about \$132 billion in January 2019 to \$3 trillion in November 2021. More concerning, the market capitalization has fallen by 60 percent to \$1.2 trillion as of April 2023. These events highlight various risks that the crypto-asset sector could pose to financial institutions, including liquidity, market, pricing, and consumer protection risks. Financial institutions can be exposed to crypto-asset risks when providing services to crypto-asset companies or engaging in crypto-asset-related activities.

While currently limited, if material exposure of financial institutions to the risks posed by crypto-related activities were to manifest, it may affect the Federal Deposit Insurance Corporation’s (FDIC) mission to maintain stability and public confidence in the Nation’s financial system. The FDIC carries out its mission by, among other things, supervising and examining financial institutions for safety and soundness and consumer protection. The exposure of financial institutions to the risks posed by crypto-related activities presents safety and soundness risks and consumer protection concerns. According to the FDIC, it is taking a deliberate and cautious approach to bank participation in crypto-related activities.

As stated in Executive Order 14067, crypto assets present numerous opportunities to foster innovation and cost savings. The FDIC has an opportunity to take actions to uphold the United States’ interests in the financial sector. However, because crypto assets also pose significant risks to the financial sector, the FDIC should ensure it

can effectively address those risks, and promote safety and soundness and consumer protection.

The objective of our review was to determine whether the FDIC has developed and implemented strategies that address the risks posed by crypto assets.

Results

The FDIC has started to develop and implement strategies that address the risks posed by crypto assets. However, the Agency has not assessed the significance and potential impact of the risks. Specifically, the FDIC has not yet completed a risk assessment to determine whether the Agency can sufficiently address crypto-asset-related risks through actions such as issuing guidance to supervised institutions. In addition, the FDIC's process for providing supervisory feedback on FDIC-supervised institutions' crypto-related activities is unclear. As part of its process, the FDIC requested financial institutions to provide information pertaining to their crypto-related activities. Additionally, the FDIC issued letters (pause letters), between March 2022 and May 2023, to certain FDIC-supervised financial institutions asking them to pause, or not expand, planned or ongoing crypto-related activities, and provide additional information. However, the FDIC did not (1) establish an expected timeframe for reviewing information and responding to the supervised institutions that received pause letters, and (2) describe what constitutes the end of the review process for supervised institutions that received a pause letter.

Until the FDIC assesses the risks of crypto activities and provides supervised institutions with effective guidance, the FDIC and some FDIC-supervised institutions may not take appropriate actions to address the most significant risks posed by crypto assets. In addition, based on evidence obtained during our evaluation, the FDIC's lack of clear procedures causes uncertainty for supervised institutions in determining the appropriate actions to take. If financial institutions do not receive timely feedback from the FDIC and do not understand what constitutes the end of the FDIC's review process, this uncertainty creates risk that the FDIC will be viewed as not being supportive of financial institutions engaging in crypto-related activities.

Recommendations

This report contains two recommendations for the FDIC to: (1) establish a plan with timeframes for assessing risks pertaining to crypto-related activities and (2) update

and clarify the supervisory feedback process related to its review of supervised institutions' crypto-related activities.

The FDIC concurred with both report recommendations and proposed corrective actions that were sufficient to address the intent of the recommendations. Therefore, we consider these recommendations to be resolved and open pending completion of the corrective actions. The FDIC plans to complete all corrective actions by January 30, 2024.

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October 17, 2023

Subject | FDIC Strategies Related to Crypto-Asset Risks

According to a September 2022 White House Fact Sheet, millions of people globally, including 16 percent of adult Americans, have purchased crypto assets.¹ The Fact Sheet also stated, crypto assets “present potential opportunities to reinforce the U.S. leadership in the global financial system and remain at the technological frontier.” A March 2022 Executive Order stated that the U.S. has an interest in responsible financial innovation and expanding access to safe and affordable financial services using crypto assets.² The Executive Order also stated that the U.S. has an interest in reducing the cost of domestic and cross-border funds transfers and payments and modernizing its public payment systems that may be possible through the use of crypto assets.³

In March 2022, the U.S. Government Accountability Office (GAO) issued a report that described a number of benefits resulting from crypto assets.⁴ According to GAO, cryptocurrencies, a type of crypto asset, are growing as a means of payment by individuals, businesses, and governments around the world. Because cryptocurrencies are digitally based and generally do not depend on intermediaries, they have the potential to reduce user costs. In addition, cryptocurrency users can conduct transactions in a manner that may provide greater privacy for their financial activities.

While crypto assets present many potential opportunities and benefits, they also pose a number of risks to the U.S. financial system. In recent years, the crypto-asset sector has experienced significant volatility. As shown in Figure 1, the total market capitalization of crypto assets fluctuated from about \$132 billion in January 2019 to \$3 trillion in November 2021. More concerning, the market capitalization has fallen by 60 percent to \$1.2 trillion as of April 2023. These events highlight various risks

¹ *FACT SHEET: White House Releases First-Ever Comprehensive Framework for Responsible Development of Digital Assets* (September 16, 2022). By “crypto asset,” the FDIC refers generally to any digital asset implemented using cryptographic techniques.

² Executive Order 14067, *Ensuring Responsible Development of Digital Assets* (March 9, 2022). The FDIC has determined that Executive Order 14067 is non-binding on the FDIC. We have included discussion of the Executive Order in this report because it provides context to the Federal Government’s overall approach to crypto assets.

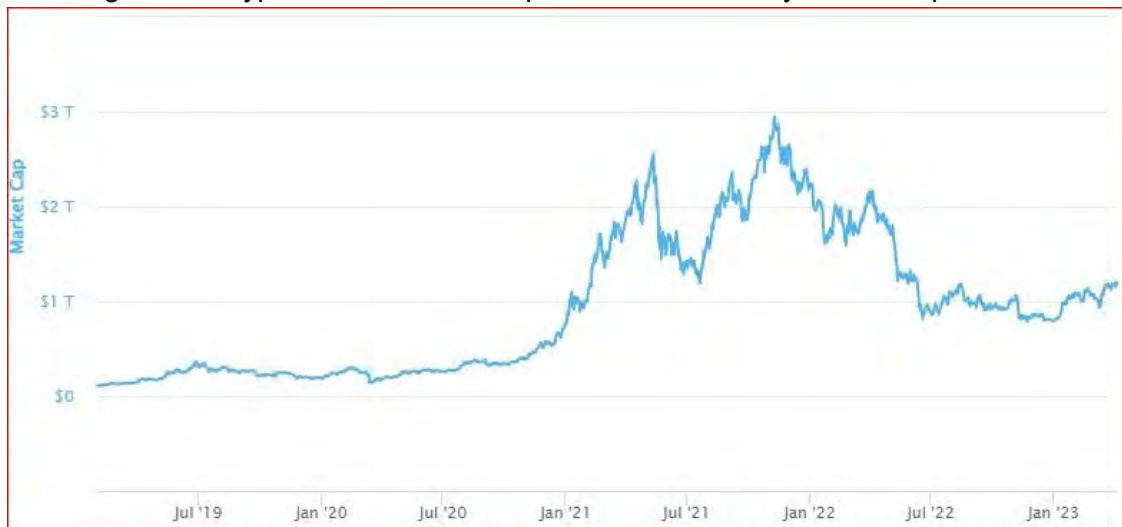
³ Public payment systems are mechanisms established to facilitate the clearing and settlement of monetary and other financial transactions.

⁴ Government Accountability Office, *Blockchain: Emerging Technology Offers Benefits for Some Applications but Faces Challenges*, GAO-22-104625 (March 2022).

FDIC Strategies Related to Crypto-Asset Risks

that the crypto-asset sector could pose to financial institutions, including liquidity, market, pricing, and consumer protection risks.⁵ Financial institutions can be exposed to crypto-asset risks by providing services to crypto-asset companies or by engaging in crypto-related activities.⁶

Figure 1: Crypto-Asset Market Capitalization—January 2019 to April 2023



Source: CoinMarketCap data as of July 26, 2023

While currently limited, if material exposure of financial institutions to the risks posed by crypto-related activities were to manifest, it may affect the Federal Deposit Insurance Corporation's (FDIC) mission to maintain stability and public confidence in the Nation's financial system. The FDIC carries out its mission by, among other things, supervising and examining financial institutions for safety and soundness and consumer protection. The exposure of financial institutions to the risks posed by crypto-related activities presents safety and soundness risks and consumer protection concerns. According to the FDIC, the Board of Governors of the Federal Reserve System (FRB), and the Office of the Comptroller of the Currency (OCC), financial institutions should be aware of a number of key risks. These risks include:

- Volatility in crypto-asset markets which could potentially impact deposit flows associated with crypto-asset companies.

⁵ For purposes of this report, a financial institution means either 1) a state-chartered bank or savings institution that is not a member of the Federal Reserve System or 2) an FDIC-insured depository institution. We use the terms "bank" and "financial institution" interchangeably throughout this report.

⁶ In FIL-16-2022, the FDIC defined the term "crypto-related activities" to include acting as crypto-asset custodians; maintaining stablecoin reserves; issuing crypto and other digital assets; acting as market makers or exchange or redemption agents; participating in blockchain- and distributed ledger-based settlement or payment systems, including performing node functions; as well as related activities such as finder activities and lending. The FIL stated this listing is based on known existing or proposed crypto-related activities engaged in by FDIC-supervised institutions, but given the changing nature of this area, other activities may emerge that fall within the scope of this FIL. The inclusion of an activity within this listing should not be interpreted to mean that the activity is permissible for FDIC-supervised institutions.

FDIC Strategies Related to Crypto-Asset Risks

- Susceptibility to stablecoin run risk which could potentially impact deposit outflows for banking organizations that hold stablecoin reserves.⁷
- Contagion risk resulting from interconnections among certain crypto-asset participants, including through lending, investing, funding, service, and operational arrangements. These interconnections may also lead to concentration risks for financial institutions with exposures to the crypto-asset sector.

As stated in Executive Order 14067, crypto assets present numerous opportunities to foster innovation and cost savings. The FDIC has an opportunity to take actions to uphold the United States' interests in the financial sector. However, because crypto assets also pose significant risks to the financial sector, the FDIC should ensure it can effectively address those risks, and promote safety and soundness and consumer protection.

The objective of our review was to determine whether the FDIC has developed and implemented strategies that address the risks posed by crypto assets. We conducted this evaluation in accordance with the Council of the Inspectors General on Integrity and Efficiency *Quality Standards for Inspection and Evaluation*. Appendix 1 presents our evaluation objective, scope, and methodology.

BACKGROUND

The FDIC achieves its mission, in part, by carrying out a supervision program to promote safe and sound operations at financial institutions and ensure compliance with federal consumer protection laws. Further, the FDIC is responsible for managing resolutions and receiverships. The Division of Risk Management Supervision (RMS) supervises financial institutions to help ensure that they operate in a safe and sound manner; the Division of Depositor and Consumer Protection (DCP) supervises financial institutions to promote compliance with federal consumer protection laws and regulations; and the Divisions of Resolutions and Receiverships (DRR) and Complex Institution Supervision and Resolution close and liquidate failing and failed institutions.

FDIC Efforts to Address Crypto-Asset Risks

The FDIC developed an initial approach to address crypto-asset risks in 2021. The FDIC's approach, at that time, included a plan to provide clear guidance to the public on: (1) how the FDIC's existing rules and policies apply to crypto assets, (2) the

⁷ The term "stablecoins" refers to a category of cryptocurrencies with mechanisms that are aimed at maintaining a stable value, such as by tying the value of the coin to a specific currency, asset, or pool of assets or by algorithmically controlling supply in response to changes in demand in order to stabilize value.

types of activities that are permissible for financial institutions to engage in, and (3) the FDIC's supervisory expectations for financial institutions that engage in such activities. The approach also included working with the FRB and OCC to coordinate policies for how and under what circumstances financial institutions can engage in activities involving crypto assets.

In 2022, the FDIC shifted to a “bottom up” approach to understanding crypto-asset risks. In March 2022, the FDIC established the Crypto Asset Risks Interdivisional Working Group to focus on this new (and still current) approach to crypto-asset risks.⁸ According to the FDIC, its current approach to engaging with supervised institutions as they consider crypto-related activities includes: (1) developing an understanding of supervised institutions' crypto-related activities, (2) providing institutions with case-specific supervisory feedback, and (3) providing broader industry guidance on an interagency basis.

To gain an understanding of the crypto-related activities and the associated risks, on April 7, 2022, the FDIC issued Financial Institution Letter (FIL) 16-2022, *Notification and Supervisory Feedback Procedures for FDIC-Supervised Institutions Engaging in Crypto-Related Activities*. The FIL requested that FDIC-supervised institutions notify the FDIC if they intended to engage in, or were currently engaged in, crypto-related activities. The FIL requested that institutions “provide information necessary to allow the agency to assess the safety and soundness, consumer protection, and financial stability implications of such activities.” Also, the FIL stated that the FDIC will review the notification and information received and request additional information as needed. In addition, the FIL stated that the FDIC would provide relevant supervisory feedback to the FDIC-supervised institution, as appropriate, in a timely manner. The FRB and OCC have issued similar requests to their supervised institutions.⁹

In response to FIL 16-2022, a number of FDIC-supervised institutions provided notifications of their intent to engage in, or engagement in, crypto-related activities. According to FDIC data, as of January 2023, the Agency was aware of 96 FDIC-supervised financial institutions that either had expressed interest or were engaged in crypto-related activities. Some of these activities included crypto-asset-custody services, deposit services, crypto-asset-collateralized lending, and facilitation of customer purchase and sale of crypto assets through a third party.

In June 2022, the Directors of RMS and DCP issued a memorandum to the Regional Directors (RD memo) to facilitate the tracking and review of notifications received in

⁸ The FDIC's Crypto Asset Working Group includes: RMS, DCP, DRR, Division of Insurance and Research, Division of Complex Institution Supervision and Resolution, and the Legal Division.

⁹ Federal Reserve SR 22-6 / CA 22-6: *Engagement in Crypto-Asset-Related Activities by Federal Reserve-Supervised Banking Organizations* (August 16, 2022); OCC, Interpretive Letter 1179 (November 18, 2021).

response to the FIL.¹⁰

(b) (8)

RD memo in October 2022

The FDIC amended the

(b) (8)

According to the FDIC, as part of its review of financial institutions' crypto-related activities, between March 2022 and May 2023, the FDIC sent letters to (b) (8) supervised institutions. The letters asked that the institutions pause from proceeding with planned activities or expanding existing activities and to provide additional information. The FDIC asked these (b) (8) financial institutions to pause their crypto-related activities in order to assess the safety and soundness, consumer protection, and financial stability implications of such activities before providing supervisory feedback. According to the FDIC, as of August 2023, the FDIC had provided (b) (8) of these (b) (8) supervised institutions with supervisory feedback related to their planned or ongoing crypto-related activities.¹¹

FDIC Efforts to Address Crypto-Related Activities of Failed Institutions

The resolution of failing or failed institutions (FFI) engaged in crypto-related activities poses complex challenges to the FDIC. The challenges include the assessment of franchise value, operational considerations, and deposit insurance determinations. As a result, DRR developed a strategy to address these challenges. In January 2021, DRR began developing a Digital Assets Operational Plan to ensure its readiness to respond to and execute on resolution scenarios related to crypto assets.

¹⁰ Regional Director Memorandum, *Procedures for Reviewing Notifications of Engagement in Crypto-Related Activities* (June 6, 2022, amended October 31, 2022).

¹¹ According to the FDIC, the Agency has provided (b) (8) supervised institutions with supervisory feedback related to their planned or ongoing crypto-related activities. Only (b) (8) of these (b) (8) institutions had received a pause letter.

In December 2022, DRR completed the first phase of its plan by developing and documenting five known potential use cases.¹² According to DRR, this plan will be a living document, and DRR will update the plan as new digital asset activities, legislative developments, and advances in technology emerge. In addition, DRR entered into a contract for crypto-asset management and liquidation services associated with FFIs.

FDIC Efforts to Address Misrepresentations of Deposit Insurance

A separate, but related issue, is the risk of misrepresentations about FDIC deposit insurance by non-bank entities (such as crypto companies). In 2022, a cryptocurrency company filed for bankruptcy. This company had been misrepresenting to its customers for over a year that the funds it held for customers were insured by the FDIC. In July 2022, the FDIC and FRB issued a joint letter demanding that this firm cease and desist from making such claims. According to the FDIC, between July 2022 and June 2023, the Agency issued 11 additional public advisory letters to non-bank entities that appeared to be making crypto-related misrepresentations about FDIC deposit insurance.¹³ These advisory letters demanded that the recipients stop making false and misleading statements regarding FDIC deposit insurance and take immediate action to address these misleading and false statements or to provide documentation that their claims are true and accurate.¹⁴ The FDIC also issued FIL 35-2022 *Advisory to FDIC-Insured Institutions Regarding Deposit Insurance and Dealings with Crypto Companies*, and a *Fact Sheet: What the Public Needs to Know About FDIC Deposit Insurance and Crypto Companies*. FIL 35-2022 and the Fact Sheet provided additional information about deposit insurance coverage and the risks of misrepresentations of FDIC insurance coverage.

The FDIC obtains information on potential deposit insurance misrepresentations through various methods, including monitoring three public portals. DCP monitors two of the portals, which also contain other consumer protection and deposit insurance complaints. The Legal Division created the third portal in July 2022.¹⁵ This third portal is focused on complaints and inquiries related to misrepresentations of deposit insurance. Along with setting up the new portal, the FDIC updated internal

¹² The five potential use cases include: (1) crypto assets held and owned by the FFI, (2) crypto assets held by the FFI as loan collateral, (3) crypto assets held by the FFI in custody for customers, (4) bank-created stabletoken on a permissioned ledger, and (5) a multibank permissioned payment system.

¹³ These 11 letters do not represent all public advisory letters that the FDIC has issued regarding misrepresentations about FDIC deposit insurance. For purposes of this report, we included the number of letters issued to address crypto-related misrepresentations only.

¹⁴ The Federal Deposit Insurance Act prohibits any person from representing or implying that an uninsured deposit is insured or from knowingly misrepresenting the extent and manner in which a deposit liability, obligation, certificate, or share is insured and authorizes the FDIC to enforce these prohibitions. 12 U.S.C.1828(a)(4).

¹⁵ This portal was created as part of the FDIC's final rule on False Advertising, Misrepresentation of Insured Status, and Misuse of the FDIC's Name or Logo, which became effective July 5, 2022. This rule established the process by which the FDIC will identify and investigate conduct that may violate section 18(a)(4) of the FDI Act.

processes for evaluating, escalating, and responding to misrepresentation complaints and inquiries. The Legal Division is the primary group responsible for responding to misrepresentation issues.

Joint Statements by the Federal Regulatory Agencies

The FDIC, FRB, and OCC jointly issued a number of public statements regarding the risks posed by crypto assets in 2021 and 2023. In November 2021, the FDIC, FRB, and OCC issued a joint statement summarizing their interagency crypto-asset policy sprint initiative. The initiative set forth the agencies' plan to clarify the rules and regulations around how financial institutions can engage in crypto-related activities.¹⁶ In the joint statement, the agencies said that they planned to “provide greater clarity on whether certain activities related to crypto assets conducted by banking organizations are legally permissible.” The agencies also stated that they planned to provide “expectations for safety and soundness, consumer protection, and compliance with existing laws and regulations” related to certain crypto-related activities.¹⁷

In January and February 2023, the FDIC, FRB, and OCC issued two additional joint statements regarding financial institutions' crypto-related activities.¹⁸ In the January 2023 joint statement, the agencies highlighted key crypto-asset risks for financial institutions' awareness. The joint statement also outlined the agencies' views regarding whether certain crypto-related activities are consistent with safe and sound banking practices. The agencies stated that “issuing or holding as principal crypto assets that are issued, stored, or transferred on an open, public, and/or decentralized network, or similar system is highly likely to be inconsistent with safe and sound banking practices.”¹⁹ Further, the agencies warned that they have “significant safety and soundness concerns with business models that are concentrated in crypto-asset-related activities or have concentrated exposures to the crypto-asset sector.” In the February 2023 joint statement, the agencies discussed the heightened liquidity risks presented by certain funding sources of crypto-asset-sector participants and offered methods to manage such risks. The February 2023 statement also discussed the importance of establishing and maintaining effective risk management and controls commensurate with the level of liquidity risks and provided examples of certain practices.²⁰

¹⁶ *Joint Statement on Crypto-Asset Policy Sprint Initiative and Next Steps* (November 2021).

¹⁷ The joint statement listed these crypto-related activities: (1) Crypto-asset safekeeping and traditional custody services, (2) Ancillary custody services, (3) Facilitation of customer purchases and sales of crypto assets, (4) Loans collateralized by crypto assets, (5) Issuance and distribution of stablecoins, and (6) Activities involving the holding of crypto assets on the balance sheet.

¹⁸ *Joint Statement on Crypto-Asset Risks to Banking Organizations* (January 2023).

¹⁹ Decentralized network generally refers to crypto-asset protocols and platforms that allow for some form of automated peer-to-peer transactions.

²⁰ *Joint Statement on Liquidity Risks to Banking Organizations Resulting from Crypto-Asset Market Vulnerabilities* (February 2023).

EVALUATION RESULTS

We found that the FDIC has started to develop and implement strategies that address the risks posed by crypto assets. For example, the FDIC identified the risks associated with its supervised financial institutions' crypto-related activities and issued FIL-16-2022, which established a strategy to review information financial institutions submitted pertaining to their crypto-related activities and provide supervisory feedback on these activities. However, the Agency has not assessed the significance and potential impact of the risks. Specifically, the FDIC has not yet completed a risk assessment to determine whether the Agency can sufficiently address crypto-asset-related risks through actions such as issuing guidance to supervised institutions. In addition, the FDIC's process for providing supervisory feedback under FIL-16-2022 is unclear. As part of its process, the FDIC issued letters (pause letters) to certain FDIC-supervised financial institutions asking them to pause, or not expand, planned or ongoing crypto-related activities. However, the FDIC did not (1) establish an expected timeframe for reviewing information and responding to the supervised institutions that received pause letters and (2) describe what constitutes the end of the review process for supervised institutions that received a pause letter.

Until the FDIC assesses the risks of crypto activities and provides supervised institutions with effective guidance, the FDIC and some FDIC-supervised institutions may not take appropriate actions to address the most significant risks posed by crypto assets. In addition, based on evidence obtained during our evaluation, the FDIC's lack of clear procedures causes uncertainty for supervised institutions in determining the appropriate actions to take. If financial institutions do not receive timely feedback from the FDIC and do not understand what constitutes the end of the FDIC's review process for paused crypto-related activities, this uncertainty creates risk that the FDIC will be viewed as not being supportive of financial institutions engaging in crypto-related activities.

The FDIC Should Continue Its Efforts to Assess Risks Related to Crypto Assets

The FDIC has identified numerous risks associated with its supervised financial institutions' crypto-related activities. However, the Agency has not yet assessed the significance and potential impact of these risks through a risk assessment. A risk assessment would enable the FDIC to determine whether the crypto-asset-related risks can be sufficiently addressed as identified in the Crypto Asset Risks Interdivisional Working Group ("Crypto Asset Working Group") Charter.

The Crypto Asset Working Group Charter (May 2022) describes its mission as being “responsible for assessing the safety and soundness, consumer protection, deposit insurance, resolution planning, and financial stability risks associated with crypto-asset-related activities that are, or may be, engaged in by financial institutions.” The Charter further states that the group “shall report out its assessment of these risks, including whether such risks can be sufficiently mitigated, and, as appropriate, provide recommendations for addressing those risks to the relevant officers of the agency.”

The FDIC started to identify risks associated with financial institution crypto-related activities in its draft *Framework for Developing an FDIC Policy View on Digital Assets Potential [Insured Depository Institution] Activity, Assessment Approach, and Potential Policy Issues* (2021 Framework) and the draft *Facilitation Bottom-Up Risk Assessment Framework* (2022 Facilitation Framework) (September 26, 2022). In its 2021 Framework, the FDIC identified potential financial institution crypto-related activities and the Agency’s approach for analyzing risks and developing a policy view. The FDIC used this as a briefing document during a discussion on a 2021 FDIC Digital Assets Performance Goal with the former Chairman. In the 2022 Facilitation Framework, the FDIC identified numerous risks, including consumer protection risks and financial stability risks specifically associated with financial institutions’ crypto-asset-facilitation activities.²¹ The FDIC issued joint statements in January and February 2023, along with the FRB and OCC, which identified key crypto-asset risks and heightened liquidity risks presented by certain funding sources of crypto-asset-sector participants. However, the Crypto Asset Working Group has not completed a risk assessment of any of the crypto-related activities, including facilitation activities.

According to the GAO’s *Standards for Internal Control in the Federal Government* (September 2014) (Green Book), “Risk assessment is the identification and analysis of risks related to achieving the defined objectives to form a basis for designing risk responses.” It also states, “Management analyzes the identified risks to estimate their significance...”²² Furthermore, “Management designs overall risk responses for the analyzed risks based on the significance of the risk and defined risk tolerance.”²³ The Green Book also states that documentation “provides a means to retain organizational knowledge and mitigate the risk of having that knowledge limited to a

²¹ Crypto-asset-facilitation activities are activities whereby a financial institution connects customers and third parties to facilitate the customers’ purchase and sale (trades) of crypto assets.

²² Green Book 7.06 states Management estimates the significance of the identified risks to assess their effect on achieving the defined objectives at both the entity and transaction levels. Management estimates the significance of a risk by considering the magnitude of impact, likelihood of occurrence, and nature of the risk. Magnitude of impact refers to the likely magnitude of deficiency that could result from the risk and is affected by factors such as the size, pace, and duration of the risk’s impact. Likelihood of occurrence refers to the level of possibility that a risk will occur. The nature of the risk involves factors such as the degree of subjectivity involved with the risk and whether the risk arises from fraud or from complex or unusual transactions.

²³ Green Book 6.08 defines risk tolerance as “the acceptable level of variation in performance relative to the achievement of objectives.”

few personnel, as well as a means to communicate that knowledge as needed to external parties, such as external auditors.”

According to the FDIC, it is taking a deliberate and cautious approach to bank participation in crypto-asset-related activities. However, the FDIC has not yet analyzed the crypto-asset risks and documented its assessment of them. Specifically, the FDIC has not assessed their significance in order to determine the magnitude of impact, likelihood of occurrence, and nature of the risks. Also, the FDIC has not developed mitigation strategies, such as issuing guidance to financial institutions, to ensure that risks are within the defined risk tolerance.

This occurred because the FDIC’s process for assessing and responding to risks related to FDIC-supervised institutions’ crypto-related activities is not mature. In early 2022, the FDIC adopted a new bottom-up approach to develop an understanding of supervised institutions’ crypto-asset-related activities and the associated risks. Since that time, the FDIC has made efforts to address crypto-asset risks, such as issuing two FILs, the RD memo, two interagency joint statements, and a number of public advisory letters to crypto-asset companies. While these efforts are positive and necessary to understanding the risks posed by crypto assets, the FDIC must continue its work to fully understand and address the risks.

If the FDIC does not assess the significance of the risks posed by crypto assets, it might not take appropriate actions to address them. The FDIC should conduct risk assessments as a basis to develop mitigation strategies. Without a risk assessment, the FDIC may not develop and issue effective policies, procedures, and guidance to address these risks.

If the FDIC does not provide its supervised institutions with effective guidance, the FDIC and some FDIC-supervised institutions may not take appropriate actions to address the most significant risks posed by crypto assets. This could impact the FDIC’s mission to promote financial stability. The FDIC promotes financial stability, in part, by ensuring safe and sound financial institution practices and protecting consumers from financial harm. Absent effective guidance, financial institutions may not employ safe and sound practices to mitigate risks while developing innovative strategies and business lines to stay competitive in the financial marketplace.

Recommendation

We recommend that the Crypto Asset Risks Interdivisional Working Group:

1. Establish a plan with timeframes for assessing risks pertaining to crypto-related activities by:
 - a) Continuing to identify and document crypto-asset risks,

- b) Performing and documenting an analysis of the identified risks to estimate their significance, and
- c) Developing and documenting strategies to address crypto-asset risks.

The FDIC Should Improve Its Supervisory Feedback Process for Crypto-Related Activities

The FDIC issued FIL-16-2022 which established a strategy to review information financial institutions submitted pertaining to their crypto-related activities and provide supervisory feedback on these activities. However, the FDIC's process for providing supervisory feedback to FDIC-supervised institutions about their crypto-related activities is unclear. The FDIC asked some financial institutions to pause or refrain from expanding certain crypto-related activities until it completed a review and provided supervisory feedback. Under the FIL, the FDIC was to provide timely, relevant, supervisory feedback. However, the FDIC did not establish an expected timeframe for reviewing the activities and responding to the FDIC-supervised institutions that received a pause letter. Also, the FDIC did not define what constitutes the end of its review process for institutions that received a pause letter. While the FDIC has maintained communication with these institutions, the lack of a clear end to the review process results in an extended pause and uncertainty for some institutions.

According to the FDIC, between March 2022 and May 2023, the FDIC sent letters to (b) (6) supervised institutions as part of its review of the institutions' crypto-related activities. The letters (pause letters) asked that the institutions pause from proceeding with planned activities or expanding existing activities and provide additional information. The pause letters stated that the institutions should provide additional information "in advance of implementation," "pause all crypto asset-related activities," or "not proceed with any crypto-asset activity." The FDIC asked the institutions to pause their activities in order to review the institutions' crypto-related activities before providing supervisory feedback. The activities that institutions provided information on include crypto-asset-custody services, facilitation of customer purchase and sale of crypto assets through a third party, and crypto-asset-collateralized lending. According to the FDIC, as of August 2023, out of the (b) (6) supervised institutions that received a pause letter, the FDIC had only provided (b) (6) institutions with supervisory feedback. (b) (8) supervised institutions have decided not to pursue crypto-related activities or are no longer FDIC-supervised.²⁴ The remaining (b) (6) have not received any supervisory feedback from the FDIC.

²⁴ There are (b) (8) additional supervised institutions that are no longer pursuing crypto activities or are no longer FDIC-supervised, but these (b) (8) institutions are included within the (b) (6) institutions that received supervisory feedback.

Review Timeframe Not Established

The FDIC did not establish an expected timeframe for reviewing the institutions' activities and responding to the FDIC-supervised institutions that received pause letters. According to FIL 16-2022, "[t]he FDIC will provide relevant supervisory feedback to the FDIC-supervised institution, as appropriate, **in a timely manner**" (emphasis added). The FDIC established procedures for reviewing and responding to notifications under the FIL in an RD memo. The RD memo, however, (b) (8)

[REDACTED] The FDIC pause letters also did not provide the financial institutions with a timeframe for FDIC review of the information nor a timeframe for providing supervisory feedback.

Review End Process Not Described

FDIC procedures do not describe what constitutes the end of the review process for supervised institutions that received a pause letter. The RD memo states that (b) (8)

[REDACTED] (b) (8) It also states that [REDACTED] (b) (8) (b) (8) (b) (8) An FDIC official described final supervisory feedback as "the final version of the supervisory feedback to be transmitted to the bank." This official further stated the term "does not have a special meaning beyond being the last stage of the internal review process." The FDIC's procedures do not describe the end of the review process and what the final supervisory feedback entails. By not clearly stating or documenting what constitutes the end of the FDIC's review process, the FDIC may be causing confusion for the financial institutions that received a pause letter. For example, when one institution provided information on its planned crypto-related activities to the FDIC, it requested that the FDIC provide its approval of those activities. However, in the pause letter sent to the supervised institution, the FDIC stated that the FIL "does not provide for the issuance of an FDIC non-objection...."²⁵ The letter requested that the institution "not proceed with planned activities, pending FDIC supervisory feedback." This example demonstrates that the institution may be confused about what would constitute the end of the FDIC's review process.

According to the GAO *Standards for Internal Control in the Federal Government*, "[m]anagement documents in policies... its responsibility for an operational process's objectives and related risks, and control activity design, implementation, and operating effectiveness." Policies may be further defined through day-to-day procedures. These procedures may "include the timing of when a control activity

²⁵ A non-objection is when the banking regulatory agency communicates to the institution that it does not object to the activity.

occurs and any follow-up corrective actions to be performed by competent personnel if deficiencies are identified.”

The RD memo did not include an expected timeframe for reviewing a financial institution’s information and responding to an institution that received a pause letter. It also did not describe the end of the review process for these institutions. This occurred because the FDIC’s process for reviewing and responding to information received from FDIC-supervised institutions’ crypto-related activities is not mature. In early 2022, the FDIC adopted a new bottom-up approach to understand crypto-asset risks through use cases. The FDIC is continuing this effort in 2023.

Based on evidence obtained during our evaluation, including our independent evaluation of the FDIC’s process, discussions with FDIC personnel, and statements made by individuals in the banking and crypto-asset industries, we determined that the FDIC’s lack of clear procedures and timely feedback regarding crypto-asset activities causes uncertainty for supervised institutions in determining the appropriate actions to take. While the FDIC has maintained communication with these institutions, the lack of a clear end to the review process results in an extended pause and uncertainty for some institutions. The uncertainty in the process creates risk that the FDIC will be viewed as not being supportive of financial institutions participating in crypto activities. Such a view leads to risk that the FDIC would inadvertently limit financial institution innovation and growth in the crypto space. This view has also been expressed by individuals in the banking and crypto-asset industries alleging that financial regulators have been cutting off crypto firms from accessing the banking system and stifling innovation.

Recommendation

We recommend that the Director of the Division of Risk Management Supervision:

2. Update and clarify the supervisory feedback process to (a) establish an expected timeframe for reviewing information and responding to FDIC-supervised institutions pursuant to the Financial Institution Letter and (b) describe what constitutes the completion of its review of its supervised institutions’ crypto-related activities.

FDIC COMMENTS AND OIG EVALUATION

The FDIC’s Director of RMS provided a written response, dated September 27, 2023, to a draft of this report. The response is presented in its entirety in Appendix 3.

FDIC Strategies Related to Crypto-Asset Risks

In its response, the FDIC concurred with both report recommendations. The FDIC's proposed corrective actions were sufficient to address the intent of both recommendations, and the FDIC plans to complete corrective actions for these recommendations by January 30, 2024. We consider both recommendations to be resolved.

Both recommendations in this report will remain open until we confirm that corrective actions have been completed and the actions are responsive. A summary of the FDIC's corrective actions is contained in Appendix 4.

Objective

The evaluation objective was to determine whether the FDIC has developed and implemented strategies that address the risks posed by crypto assets.

We conducted this evaluation from June 2022 through June 2023 in accordance with the Council of the Inspectors General on Integrity and Efficiency *Quality Standards for Inspection and Evaluation* (issued December 2020).

Scope and Methodology

The scope of our evaluation focused on the FDIC's efforts to develop and implement strategies that address crypto-asset risks. To obtain an understanding of the FDIC's efforts, we interviewed FDIC officials and staff from the Crypto Asset Risks Interdivisional Working Group, the Division of Risk Management Supervision, the Division of Depositor and Consumer Protection, the Division of Resolutions and Receiverships, the Division of Complex Institution Supervision and Resolution, and the Legal Division. Additionally, we reviewed the following relevant FDIC documents:

- Digital Assets Operational Plan (Revised December 2022);
- Division of Resolutions and Receiverships contract with a third party for crypto-asset services to support resolution and receivership activities (effective September 2021);
- *Draft Framework for Developing an FDIC Policy View on Digital Assets Potential [Insured Depository Institution] Activity, Assessment Approach, and Potential Policy Issues* (2021);
- *Draft Facilitation Bottom-Up Risk Assessment Framework* (September 26, 2022);
- FDIC public advisory letters issued to companies that appeared to be making crypto-related false or misleading representations about FDIC deposit insurance (Letters issued between July 2022 and June 2023);
- FDIC letters issued to certain FDIC-supervised institutions asking for additional information on planned or ongoing crypto-related activities, and pause from proceeding with planned activities or expanding existing activities (Letters issued between March 2022 and May 2023);
- FDIC's Crypto-Related Activity Tracking System data (as of January 2023);
- Financial Institution Letter 16-2022, *Notification and Supervisory Feedback Procedures for FDIC-Supervised Institutions Engaging in Crypto-Related Activities* (April 7, 2022);
- Financial Institution Letter 35-2022 *Advisory to FDIC-Insured Institutions Regarding Deposit Insurance and Dealings with Crypto Companies*, and *Fact*

- Sheet: What the Public Needs to Know About FDIC Deposit Insurance and Crypto Companies* (July 29, 2022);
- Regional Director Memorandum, *Procedures for Reviewing Notifications of Engagement in Crypto-Related Activities* (June 6, 2022, amended October 31, 2022);
 - *Remarks by FDIC Chairman Jelena McWilliams at Money 20/20* (October 2021);
 - *Remarks by FDIC Acting Chairman Martin J. Gruenberg at the Brookings Institution on The Prudential Regulation of Crypto-Assets* (October 2022);
 - The Crypto Asset Risks Interdivisional Working Group Charter (May 2022); and
 - The Crypto Asset Risks Interdivisional Working Group minutes (April 2022 through February 2023).

We also reviewed joint statements issued by the FDIC, OCC, and FRB: *Joint Statement on Crypto-Asset Policy Sprint Initiative and Next Steps* (November 23, 2021); *Joint Statement on Crypto-Asset Risks to Banking Organizations* (January 3, 2023); and *Joint Statement on Liquidity Risks to Banking Organizations Resulting from Crypto-Asset Market Vulnerabilities* (February 23, 2023).

We further reviewed Executive Order No. 14067, *Executive Order on Ensuring Responsible Development of Digital Assets* (March 9, 2022) and the associated reports directed by the Executive Order. Moreover, we reviewed the GAO Report, *Emerging Technology Offers Benefits for Some Applications but Faces Challenges*, GAO-22-104625 (March 2022).

To gain an understanding of the FDIC's supervisory actions provided to its supervised institutions regarding their crypto-related activities, we selected a sample of nine institutions engaged in or planning to engage in crypto-related activities. We selected the sample from the FDIC's Crypto-Related Activity Tracking System (as of October 2022). For this sample, we reviewed the FDIC's examination or visitation documentation, correspondence, and letters issued as of January 2023.

In addition, we reviewed FRB's *SR 22-6 / CA 22-6: Engagement in Crypto-Asset-Related Activities by Federal Reserve-Supervised Banking Organizations* (August 16, 2022) and the OCC Interpretive Letter 1179 (November 18, 2021). We further interviewed these two Federal banking regulatory agencies to obtain information on their efforts in identifying and addressing risks associated with their supervised institutions' crypto-related activities.

We applied internal control principles promulgated by the GAO (the Green Book) to guide our work when appropriate. For example, we considered internal controls standards, and activities, related to (1) identifying, analyzing, and responding to risks and (2) implementing control activities such as documentation of responsibilities through policies.

Crypto Asset Working Group	Crypto Asset Risks Interdivisional Working Group
DCP	Division of Depositor and Consumer Protection
DRR	Division of Resolutions and Receiverships
FDIC	Federal Deposit Insurance Corporation
FFI	Failing or failed institutions
FIL	Financial Institution Letter
FRB	Board of Governors of the Federal Reserve System
GAO	United States Government Accountability Office
OCC	Office of the Comptroller of the Currency
OIG	Office of Inspector General
RD memo	Regional Director memorandum
RMS	Division of Risk Management Supervision
WO	Washington Office



Federal Deposit Insurance Corporation
550 17th Street NW, Washington, D.C. 20429-9990

Division of Risk Management Supervision

TO: Terry L. Gibson
Assistant Inspector General, Audits, Evaluations, and Cyber
Office of Inspector General

FROM: Doreen R. Eberley DOREEN
EBERLEY Digitally signed by
DOREEN EBERLEY
Date: 2023.09.27
14:02:42 -0400
Director, Division of Risk Management Supervision

DATE: September 27, 2023

RE: Response to Draft Evaluation Report
FDIC Strategies Related to Crypto Asset Risks (No. 2022-007)

BACKGROUND

The FDIC has completed its review of the Office of Inspector General's (OIG) draft evaluation report entitled, *FDIC Strategies Related to Crypto Asset Risks (No. 2022-007)*, provided on August 31, 2023 ("draft report"). FDIC concurs with the OIG's two recommendations, and provides a response to the recommendations below, including a summary of management's planned actions.

FDIC'S APPROACH TO ENGAGING WITH BANKS ON CRYPTO-RELATED ACTIVITIES

From the perspective of bank regulators, before banks engage in new or rapidly evolving activities, such as those related to the crypto-asset arena, it is important that they understand that the activity is permissible under applicable laws and regulations; that the activity can be conducted in a safe and sound manner; that the bank has put in place appropriate measures and controls to identify and manage the novel risks associated with those activities; and that the bank complies with all relevant laws and regulations, including those related to anti-money laundering/countering the financing of terrorism, and consumer protection. As the OIG points out in its report, the crypto-asset sector has proven to be highly volatile and has exhibited a number of risks to financial stability and institutions, including contagion risks due to high levels of interconnectedness within the sector.

As the crypto-asset sector grew rapidly in 2021 and early 2022, banking regulators recognized that there was also an increasing interest by some banks to engage in crypto-asset activities. The FDIC had been generally aware of the interest in crypto-asset related activities through its normal supervision process, but as interest accelerated, the FDIC recognized that there was insufficient information on which banks had been engaging in, or were interested in engaging in, crypto-related activities. To address that gap, and in consideration of various safety and soundness, consumer protection, and financial stability concerns, the FDIC issued Financial Institution Letter, *Notification of Engaging in Crypto-Related Activities* (FIL-16-2022) in April

2022, asking FDIC-supervised institutions to notify the FDIC of the crypto-related activities in which they were engaged or intended to engage.¹ FIL-16-2022 described some of the crypto-related risks about which the FDIC was concerned and indicated that the FDIC would provide supervisory feedback related to the planned or ongoing activities.

Subsequently, significant events, bankruptcies, and volatility in the crypto-asset industry exposed a number of vulnerabilities in the crypto-asset sector. For example, the May 2022 Terra USD collapse; the July 2022 bankruptcies of Three Arrows Capital (3AC), Voyager, and Celsius; the November 2022 FTX bankruptcy; and the significant price decline of Bitcoin (BTC) in 2022 from over \$47,000 to less than \$17,000.² Some of these disruptions involved consumers being unable to access their funds. In addition, it became evident that false and misleading statements, either direct or implied, by crypto-asset entities concerning the availability of deposit insurance for a given crypto-asset product violated the law, and could give consumers the impression that crypto-asset products are protected by FDIC deposit insurance, when they are not.³

In July 2022, the FDIC issued a fact sheet for consumers regarding deposit insurance⁴ and an advisory reminding insured banks of the risks that could arise related to misrepresentations of deposit insurance.⁵ While not specific to crypto-assets, the FDIC Board of Directors approved a final rule on May 17, 2022, to help address instances in which firms misrepresent the availability of deposit insurance in violation of the law.⁶ Also, on December 13, 2022, the FDIC Board of Directors issued for public comment a proposed rule to amend its regulations on use of the official FDIC sign and to clarify the FDIC regulation regarding misrepresentations of deposit insurance. This proposed rule also adds crypto-asset to the definition of non-deposit product.⁷ The volatility in the crypto-asset sector continued as 2022 unfolded, including a rapid deterioration in and ultimate bankruptcy of a large crypto-asset firm.⁸

The banking regulators had been observing and discussing the risks posed by the crypto-asset sector, and determined to issue interagency guidance regarding those risks. In January 2023, the FDIC, the Board of Governors of the Federal Reserve (Federal Reserve), and the Office of the Comptroller of the Currency (OCC) released a joint statement on crypto-asset risks to banking organizations (see FIL-01-2023, *Joint Statement on Crypto-Asset Risks to Banking Organizations*, issued January 5, 2023).⁹ The statement describes the risks to banking

¹ See <https://www.fdic.gov/news/financial-institution-letters/2022/fil22016.html>

² See, for example,

<https://www.washingtonpost.com/business/2022/07/06/voyager-bankruptcy-three-arrows/> and <https://www.washingtonpost.com/business/2022/07/13/crypto-bankruptcy-celsius-depositors/> and <https://www.nytimes.com/2022/11/11/business/ftx-bankruptcy.html> and <https://coinmarketcap.com/currencies/bitcoin/>

³ See <https://www.fdic.gov/news/press-releases/2022/pr22060.html>

⁴ See <https://www.fdic.gov/news/press-releases/2022/pr22058.html>

⁵ See <https://www.fdic.gov/news/financial-institution-letters/2022/fil22035.html>

⁶ See <https://www.fdic.gov/news/financial-institution-letters/2022/fil22021.html>

⁷ See <https://www.fdic.gov/news/financial-institution-letters/2022/fil22052.html>

⁸ See, for example, <https://www.nytimes.com/2022/11/11/business/ftx-bankruptcy.html> and

<https://www.wsj.com/articles/crypto-crisis-a-timeline-of-key-events-11675519887>

⁹ See <https://www.fdic.gov/news/financial-institution-letters/2023/fil23001.html>

organizations and reminds banking organizations that they should ensure that crypto-asset-related activities can be performed in a safe and sound manner, are legally permissible, and comply with applicable laws and regulations, including those designed to protect consumers.

Also, in February 2023, the FDIC, Federal Reserve, and OCC issued a *Joint Statement on Liquidity Risks to Banking Organizations Resulting from Crypto-Asset Market Vulnerabilities* (see FIL-08-2023, issued on February 23, 2023).¹⁰ The statement highlights key liquidity risks associated with certain sources of funding from crypto-asset-related entities that banking organizations should be aware of. The statement reminds banking organizations to apply existing risk management principles and provides examples of practices that could be effective. The agencies also continue to emphasize that banking organizations are neither prohibited nor discouraged from providing banking services to customers of any specific class or type, as permitted by law or regulation.¹¹

The FDIC has actively engaged with institutions that have advised the FDIC of their activities or plans pursuant to FIL-16-2022. In what appears to be a product of changing market conditions (e.g., crypto-asset firm bankruptcies and disruptions described above, challenging macroeconomic conditions, crypto-asset service providers exiting certain business lines), a number of FDIC-supervised institutions have provided updates on previously planned activities and subsequently notified the FDIC that they no longer plan to pursue crypto-related activities. The majority of banks that received pause letters have notified the FDIC that they are no longer actively pursuing crypto-related activity.¹²

CONTEXT REGARDING FDIC ENTERPRISE RISK MANAGEMENT

The FDIC carries out its mission by, among other things, supervising and examining financial institutions for safety and soundness and consumer protection. As part of its Enterprise Risk Management (ERM) function, the FDIC maintains an enterprise-wide Risk Inventory, which is a comprehensive, detailed list of risks that could hamper the FDIC's ability to achieve its goals and objectives. The risk attributes captured in the Risk Inventory include all the components from the GAO Standards for Internal Control in the Federal Government (Green Book) related to risk assessments that are outlined in the OIG draft evaluation report.

The Green Book outlines that a risk assessment "assesses the risk facing the entity as it seeks to achieve its objectives."¹³ The risk attributes captured in the Risk Inventory include: identifying the risk, existing controls to mitigate the risk, impact, likelihood, residual risk, and planned mitigations, among other things. The FDIC has identified risks related to staying abreast of

¹⁰ See <https://www.fdic.gov/news/financial-institution-letters/2023/fil23008.html>

¹¹ See also, FIL 5-2015, *Statement on Providing Banking Services*, issued January 28, 2015.

¹² In the draft report's discussion of banks that received pause letters, the draft report states that some banks have not received any supervisory feedback. In those instances, banks are either no longer actively pursuing crypto-related activity or banks have: not provided information requested by the FDIC; materially revised the proposed activities and the FDIC has requested updated information; or the proposed activities are broad, complex, and significant (for which FDIC staff are actively working on providing supervisory feedback).

¹³ See GAO-14-704G Federal Internal Control Standards, page 7.

industry trends and emerging technology, as well as ongoing efforts related to crypto-assets as controls for those risks.

FDIC MANAGEMENT RESPONSE TO RECOMMENDATIONS

FDIC concurs with the recommendations.

Recommendation 1: OIG recommends that the Crypto Asset Risks Interdivisional Working Group:

1. Establish a plan with timeframes for assessing risks pertaining to crypto-related activities by:
 - a) Continuing to identify and document crypto-asset risks,
 - b) Performing and documenting an analysis of the identified risks to estimate their significance, and
 - c) Developing and documenting strategies to address crypto-asset risks.

Planned Action: The FDIC concurs with this recommendation. The FDIC will utilize the ERM program to continue to identify and document risks that may face the FDIC in achieving its mission associated with supervising banks pursuing crypto-related activities, including the significance of those risks, and as appropriate, will identify any additional supervisory strategies to encourage bank management to appropriately manage risks to the bank.

Estimated Completion Date: The divisions that are members of the Interdivisional Working will provide a memorandum to the Chief Risk Officer documenting the risk assessment by January 30, 2024.

Recommendation 2: OIG recommends that the Director of the Division of Risk Management Supervision (RMS): Update and clarify the supervisory feedback process to (a) establish an expected timeframe for reviewing information and responding to FDIC-supervised institutions pursuant to the Financial Institution Letter and (b) describe what constitutes the completion of its review of its supervised institutions' crypto-related activities.

Planned Action: The FDIC concurs with this recommendation. The RMS Director, in coordination with the Director of the Division of Depositor and Consumer Protection, and in consultation with the Legal Division as appropriate, will update joint internal processes to include instructions for establishing expected timeframes for: 1) reviewing additional information after it is requested and received by the FDIC, and 2) responding to FDIC-supervised institutions after such date that the FDIC determines sufficient information has been received. Those instructions may allow for consideration of factors, such as the complexity of the activities or proposed activities, when establishing expected timeframes. In addition, the FDIC will update joint internal processes to outline expectations for communicating to an institution what constitutes the completion of the case-specific crypto-related activity review process.

Estimated Completion Date: Internal processes will be updated via a joint regional director memorandum that will be issued by January 30, 2024.

This table presents management's response to the recommendations in the report and the status of the recommendations as of the date of report issuance.

Rec. No.	Corrective Action: Taken or Planned	Expected Completion Date	Monetary Benefits	Resolved: ^a Yes or No	Open or Closed ^b
1	The FDIC will utilize the ERM program to continue to identify and document risks that may face the FDIC in achieving its mission associated with supervising banks pursuing crypto-related activities, including the significance of those risks, and as appropriate, will identify any additional supervisory strategies to encourage bank management to appropriately manage risks to the bank.	January 30, 2024	\$0	Yes	Open
2	The RMS Director, in coordination with the Director of the Division of Depositor and Consumer Protection, and in consultation with the Legal Division as appropriate, will update joint internal processes to include instructions for establishing expected timeframes for: 1) reviewing additional information after it is requested and received by the FDIC, and 2) responding to FDIC-supervised institutions after such date that the FDIC determines sufficient information has been received. Those instructions may allow for consideration of factors, such as the complexity of the activities or proposed activities, when establishing expected timeframes. In addition, the FDIC will update joint internal processes to outline expectations for communicating to an institution what constitutes the completion of the case-specific crypto-related activity review process.	January 30, 2024	\$0	Yes	Open

^a Recommendations are resolved when —

1. Management concurs with the recommendation, and the OIG agrees the planned corrective action is consistent with the recommendation.
2. Management does not concur or partially concurs with the recommendation, but the OIG agrees that the proposed corrective action meets the intent of the recommendation.
3. For recommendations that include monetary benefits, management agrees to the full amount of OIG monetary benefits or provides an alternative amount and the OIG agrees with that amount.

^b Recommendations will be closed when the OIG confirms that corrective actions have been completed and are responsive.



Federal Deposit Insurance Corporation
Office of Inspector General

3501 Fairfax Drive
Room VS-E-9068
Arlington, VA 22226

(703) 562-2035

☆☆☆☆☆

The OIG's mission is to prevent, deter, and detect waste, fraud, abuse, and misconduct in FDIC programs and operations; and to promote economy, efficiency, and effectiveness at the agency.

To report allegations of waste, fraud, abuse, or misconduct regarding FDIC programs, employees, contractors, or contracts, please contact us via our [Hotline](#) or call 1-800-964-FDIC.

FDIC OIG website

www.fdicigoig.gov

X, formerly known as Twitter

@FDIC_OIG



www.oversight.gov/

Appendix B

History Associates Inc. v. FDIC, No. 1:24-cv-1857-ACR (D.D.C.)

FDIC's Redacted Pause Letters

November 22, 2024

DOCUMENT 1



600 North Pearl Street, Suite 700, Dallas, Texas
(214) 754-0098 FAX (972) 761-2082

Division of Risk Management Supervision
Division of Depositor and Consumer Protection

SENT VIA SECURED ELECTRONIC MAIL

March 11, 2022

The Board of Directors

[REDACTED]

Subject: Proposed New FinTech Product [REDACTED]

Dear Members of the Board:

This office received [REDACTED] submission [REDACTED] that provided high-level information relating to the subject product. The proposed product is [REDACTED]

[REDACTED] However, at this time the FDIC has not yet determined what, if any, regulatory filings will be necessary for a bank to engage in this type of activity. As a result, we respectfully ask that you pause all crypto asset-related activity. The FDIC will notify all FDIC-supervised banks at a later date when a determination has been made on the supervisory expectations for engaging in crypto asset-related activity, including the need for any regulatory filings.

You may direct questions on this matter to [REDACTED]

[REDACTED] As a reminder, written correspondence should be addressed to Kristie Elmquist, Regional Director, FDIC, Dallas Regional Office, and sent as a PDF document through the FDIC's Secure Email portal (<https://securemail.fdic.gov/>) using the following e-mail address: DALMailRoom@fdic.gov. Information about how to use secure email and FAQs about the service can be found at <https://www.fdic.gov/secureemail/>. If there are any questions about the Secure Email process, please contact [REDACTED] or me at [REDACTED].

Sincerely,

Eric T. Guyot (Signed)

Eric T. Guyot
Assistant Regional Director

cc: Federal Reserve Bank of Atlanta

[REDACTED]

DOCUMENT 2



FEDERAL DEPOSIT INSURANCE CORPORATION
10 10th Street NE, Suite 800
Atlanta, Georgia 30309-3849

Atlanta Regional Office
Division of Risk Management Supervision
(678) 916-2200

March 15, 2022

Via Secure Email

[REDACTED]

Subject: [REDACTED]

[REDACTED]

Based on recent discussions with you and your management team, as well as review of documentation provided by the bank, [REDACTED] intends to offer bank clients [REDACTED]

[REDACTED]

Please notify us of any material change from the arrangement as described to the FDIC, [REDACTED]. Thereafter, the FDIC may have additional questions to clarify the bank's proposed activities prior to expanding the service to ensure the bank is operating in safe and sound manner.¹

If you have any questions concerning this letter, please contact [REDACTED]

Sincerely,

Frank R. Hughes
Acting Regional Director

¹ See e.g., Section 39 of the Federal Deposit Insurance Act and Part 364 of the FDIC Rules and Regulations.

DOCUMENT 3



Federal Deposit Insurance Corporation

Division of Risk Management Supervision
350 5th Avenue, New York, NY 10018

New York Regional Office

March 25, 2022

Board of Directors

c/o [REDACTED]
[REDACTED]
[REDACTED]

Subject: [REDACTED]

Dear Members of the Board:

[REDACTED]
[REDACTED]
[REDACTED]

[REDACTED] conference call to discuss
[REDACTED] proposal with representatives from the
[REDACTED] understand, as a result of this conference call, that
[REDACTED]

The FDIC has a number of questions based on the information provided to date. We expect you to satisfactorily address them (in advance of implementation) to ensure the bank is operating in a safe and sound manner.¹ To assist the FDIC [REDACTED] we will be sending, under separate cover, (i) the [REDACTED] that have not yet been satisfactorily addressed and (ii) additional questions and document requests that will need to be addressed.

Written correspondence should be addressed to Jessica A. Kaemingk, Acting Regional Director, FDIC, New York Regional Office, and sent as a PDF document through the FDIC's Secure Email portal (<https://secureemail.fdic.gov/>) using the following email address: NYMailRoom@fdic.gov. Information about how to use secure email and FAQs about the service can be found at <https://www.fdic.gov/secureemail/>.

¹ See e.g., Section 39 of the Federal Deposit Insurance Act and Part 364 of the FDIC Rules and Regulations.

[REDACTED]
Board of Directors

Page 2 of 2

If you have any questions, please contact Assistant Regional Director Steven P. Slovinski
at [REDACTED].

Sincerely,
Jessica A. Kaemingk
Acting Regional Director

CC: [REDACTED]
Federal Reserve Bank of New York

DOCUMENT 4



Federal Deposit Insurance Corporation
Division of Risk Management Supervision
350 5th Avenue, New York, NY 10018

New York Regional Office

March 25, 2022

Board of Directors

[REDACTED]

Subject: Activity Related to [REDACTED]

Dear Board Members:

[REDACTED] met with the FDIC and notified the FDIC of a new planned product, [REDACTED]

[REDACTED] along with other bank management, participated in a conference call to discuss [REDACTED] with representatives from the FDIC [REDACTED] with a follow-up call on [REDACTED]. The regulators understand, as a result of these discussions, [REDACTED]

The FDIC has a number of questions based on the information provided to date. We expect you to satisfactorily address them (in advance of implementation) to ensure the bank will be engaging in this new activity in a safe and sound manner.¹ To assist [REDACTED] we will be sending, under separate cover, (i) the questions [REDACTED] that have not yet been satisfactorily addressed; and (ii) additional questions and document requests that will need to be addressed prior to launch [REDACTED].

Written correspondence should be addressed to Jessica A. Kaemingk, Acting Regional Director, FDIC, New York Regional Office, and sent as a PDF document through the FDIC's Secure Email portal (<https://secureemail.fdic.gov/>) using the following email address: NYMailRoom@fdic.gov. Information about how to use secure email and FAQs about the service can be found at <https://www.fdic.gov/secureemail/>.

¹ See e.g., Section 39 of the Federal Deposit Insurance Act and Part 364 of the FDIC Rules and Regulations.

[REDACTED]
Board of Directors

Page 2 of 2

If you have any questions, please contact Assistant Regional Director Steven P. Slovinski
at [REDACTED]

Sincerely,
Jessica A. Kaemingk
Acting Regional Director

[REDACTED]

DOCUMENT 5



Federal Deposit Insurance Corporation
Division of Risk Management Supervision
300 South Riverside Plaza, Suite 1700, Chicago, IL 60606

Chicago Regional Office
Phone (312) 382-7500
Fax (312) 382-6901

April 5, 2022

Board of Directors
[REDACTED]

Subject: Activity Related to [REDACTED]

Dear Board Members:

[REDACTED] the Federal Deposit Insurance Corporation (FDIC), [REDACTED] management team participated in a virtual meeting to discuss crypto-asset [REDACTED]. Subsequent to that meeting, the FDIC [REDACTED] received additional documentation regarding the bank's agreements, risk assessment, and due diligence related to this new service.

The FDIC has a number of questions based on the information provided to date. Those include questions with respect to the permissibility of this activity, including what legal analysis the bank performed related to permissibility and to assess compliance with Part 362 of the FDIC Rules and Regulations. Those also include questions with respect to safety and soundness¹ related to this activity and consumer protection issues. The FDIC plans to perform a detailed review of this activity and will seek further information with respect to those questions at the upcoming [REDACTED] examination. Until [REDACTED] should not expand the service to additional customers.

If you have any questions, please contact Deputy Regional Director Christopher J. Newbury at [REDACTED]

Sincerely,
GREGORY Digitally signed by
BOTTONE GREGORY BOTTONE
Date: 2022.04.05
12:03:16 -04'00'
Gregory P. Bottone
Regional Director

cc: [REDACTED]

¹ See e.g., Section 39 of the Federal Deposit Insurance Act and Part 364 of the FDIC Rules and Regulations.

DOCUMENT 6



Dallas Regional Office
600 North Pearl Street, Suite 700
Dallas, Texas 75201
(214) 754-0098 FAX (972) 761-2082

April 15, 2022

The Board of Directors

[REDACTED]

Subject: Proposed [REDACTED]

Dear Members of the Board:

We received [REDACTED] submission [REDACTED] that provided high-level information related to the subject [REDACTED]. The proposed product will [REDACTED]

[REDACTED] [REDACTED]. However, at this time the FDIC has not yet determined what, if any, regulatory filings will be necessary for a bank to engage in this type of activity. As a result, we respectfully ask that you pause all crypto asset-related activity. The FDIC will notify all FDIC-supervised banks at a later date when a determination has been made on the supervisory expectations for engaging in crypto asset-related activity, including the need for any regulatory filings. Refer to the Financial Institution Letter issued on April 7, 2022, FIL-16-2022-Notification of Engaging in Crypto-Related Activities, for additional information.

Please direct questions on this matter to [REDACTED]. As a reminder, written correspondence should be addressed to Kristie K. Elmquist, Regional Director, FDIC, Dallas Regional Office, and sent as a PDF document through the FDIC's Secure Email portal (<https://securemail.fdic.gov/>) using the following e-mail address: DALMailRoom@fdic.gov. Information about how to use secure email and FAQs about the service can be found at <https://www.fdic.gov/secureemail/>. If you prefer to send correspondence via mail, please use the Dallas Regional Office address noted in the letterhead. If there are any questions about the Secure Email process, please contact [REDACTED].

Sincerely,

Signed by Joseph A. Meade

Joseph A. Meade
Assistant Regional Director

cc: Federal Reserve Bank of Kansas City

[REDACTED]

DOCUMENT 7



Federal Deposit Insurance Corporation

Division of Risk Management Supervision
350 5th Avenue, New York, NY 10018

New York Regional Office

April 22, 2022

Board of Directors

[REDACTED]

Subject: [REDACTED]

Dear Members of the Board:

[REDACTED]

We appreciate the transparency [REDACTED] over the past several months in keeping us informed as the bank has conducted due diligence and explored its entry into the digital asset space. This letter serves as a follow-up to what was discussed in regards to [REDACTED] and FDIC New York Regional Office staff.

[REDACTED] participated in a [REDACTED] conference call to discuss the [REDACTED] proposal with representatives from the FDIC, [REDACTED]

The Federal regulators understand, as a result of this conference call, that [REDACTED]

The FDIC has a number of questions based on the information provided to date. We expect [REDACTED] to address those (in advance of implementation) to ensure [REDACTED] operating in a safe and sound manner.¹ To assist the FDIC and the other Federal regulators in [REDACTED], we will be sending, under separate cover, (i) the questions regarding [REDACTED] have not yet been satisfactorily addressed and (ii) additional questions and document requests that will need to be addressed. In addition to this outreach, we may reach out [REDACTED] with questions to gain an understanding of how the bank will ensure continued safe and sound operation as this activity is implemented.

¹ See e.g., Section 39 of the Federal Deposit Insurance Act and Part 364 of the FDIC Rules and Regulations.

[REDACTED]
Board of Directors

Page 2 of 2

Written correspondence should be addressed to Jessica A. Kaemingk, Acting Regional Director, FDIC, New York Regional Office, and sent as a PDF document through the FDIC's Secure Email portal (<https://secureemail.fdic.gov/>) using the following email address: NYMailRoom@fdic.gov. Information about how to use secure email and FAQs about the service can be found at <https://www.fdic.gov/secureemail/>.

If you have any questions, please contact Assistant Regional Director Ashley M. Amicangioli at [REDACTED]

Sincerely,
Jessica A. Kaemingk
Acting Regional Director

CC: [REDACTED]
[REDACTED]

DOCUMENT 8



Dallas Regional Office
600 North Pearl Street, Suite 700
Dallas, Texas 75201
(214) 754-0098 FAX (972) 761-2082

April 25, 2022

Board of Directors

[REDACTED]

Via Secure Email

Members of the Board:

[REDACTED] the FDIC, [REDACTED] met with [REDACTED]
[REDACTED], participated in the meeting to discuss the
functionality of the product [REDACTED]
[REDACTED] versions of the product, [REDACTED]
and subsequently, FDIC has received revised information outlining three models [REDACTED]

In our letter to you [REDACTED] the FDIC stated it has a number of questions based on the discussion and information provided to date. The initial questions are attached and we request responses [REDACTED]. As noted in our prior letter, we expect you to satisfactorily address these and any subsequent questions (in advance of implementation) to ensure the bank is operating in a safe and sound manner.¹ This is consistent with FIL-16-2022 which requests that institutions provide information necessary to allow the agency to assess the safety and soundness, consumer protection, and financial stability implications of such activities.

Written correspondence should be addressed to Kristie K. Elmquist, Regional Director, FDIC, Dallas Regional Office, and sent as a PDF document through the FDIC's Secure Email portal (<https://securemail.fdic.gov/>) using the following e-mail address: DALMailRoom@fdic.gov. Information about how to use secure email and FAQs about the service can be found at <https://www.fdic.gov/secureemail/>.

Sincerely,

Kristie Elmquist
Regional Director

Attachment

¹ See e.g., Section 39 of the Federal Deposit Insurance Act and Part 364 of the FDIC Rules and Regulations

1. **Structure**
 - a. Describe the activities conducted by [REDACTED] the assets held by [REDACTED] the relationship [REDACTED]
 - b. Describe the [REDACTED] processes for decision-making, key participants, and key personnel. In your response, indicate [REDACTED]
 - c. Describe what role, [REDACTED]
 - d. Describe what role, [REDACTED]
 - e. Provide the terms of [REDACTED] documents that describe the terms [REDACTED] Identify the party responsible for [REDACTED]
 - f. Explain in detail [REDACTED] Identify all persons that control 5 percent or more [REDACTED] and provide the percentage controlled.
 - g. Explain any dispute resolution processes [REDACTED]
 - h. Provide a list of the fees [REDACTED] and estimated expenses moving forward. In your response, please clarify what the fees are for [REDACTED]
 - i. Discuss the permissibility [REDACTED] under section [REDACTED] Federal Deposit Insurance Act, [REDACTED] the FDIC Rules and Regulations, [REDACTED]
 - j. Clarify whether [REDACTED]
 - k. Describe what involvement, if any, [REDACTED]
 - l. Identify the steps [REDACTED]
 - m. Describe key third-party relationships [REDACTED] [REDACTED] business-to-business payments, merchant payments, [REDACTED] to ensure privacy, confidentiality and/or data security for the different types of customers and their data.
 - n. Explain any restrictions in place regarding the use of data [REDACTED] In your response identify the parties with access to such data and the type(s) of data they

can access and any controls monitoring the use of such data. Explain the rights and responsibilities with respect to privacy and/or data security violations.

- p. [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]

- 2. [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]

3. **Accounting.**

- a. Explain how funds [REDACTED] the balance sheet [REDACTED].
- b. Explain whether and how [REDACTED] on the balance sheet [REDACTED].
- c. Explain whether reserves will be held in [REDACTED]
[REDACTED]
[REDACTED]
- d. Provide example general ledger entries [REDACTED]
[REDACTED]
[REDACTED] Please provide a chart depicting the flow of funds.

4. **Exposure to** [REDACTED]

- a. [REDACTED]
[REDACTED] describe any controls in place [REDACTED]
[REDACTED]
- b. Explain the liability, if any, [REDACTED]
[REDACTED]

5. Risk Management and Controls.

- a. Describe the role of the board in reviewing and approving [REDACTED]
 - i. Explain the process [REDACTED]
 - [REDACTED]
 - [REDACTED]
 - [REDACTED]
 - [REDACTED]
- b. [REDACTED] risk assessment and due diligence [REDACTED] key personnel [REDACTED]
- c. [REDACTED] relevant expertise needed [REDACTED]
 - [REDACTED] limitations on customer activity [REDACTED]
 - [REDACTED] systems or procedures to allow for this activity. [REDACTED] risk management systems, processes, and controls [REDACTED]
- g. [REDACTED]
 - [REDACTED] mitigate risks related to security and privacy.
- i. [REDACTED] mitigate operational risk [REDACTED]
- j. [REDACTED]
- k. [REDACTED] efforts to conduct due diligence and assess the risks [REDACTED]
- l. [REDACTED]
- m. [REDACTED]
- n. Describe and provide documentation of vulnerability analysis [REDACTED]

6. **Settlement:** [REDACTED]
[REDACTED]
[REDACTED]
- [REDACTED]
[REDACTED]
 - [REDACTED]
[REDACTED]
 - [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
 - [REDACTED]
[REDACTED]

7. [REDACTED]
- [REDACTED]
 - [REDACTED]
[REDACTED]
 - [REDACTED]
[REDACTED]
[REDACTED]
 - [REDACTED]
[REDACTED]
 - [REDACTED]
[REDACTED]
 - [REDACTED]
[REDACTED]
 - [REDACTED]
[REDACTED]

8. **Consumer Protection.**
- a. [REDACTED]
[REDACTED]
- [REDACTED]
[REDACTED]
 - [REDACTED]
[REDACTED]
 - [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
 - [REDACTED]
[REDACTED]
 - [REDACTED]
[REDACTED]
 - [REDACTED]
[REDACTED]

- h. Describe any representations that [REDACTED] is making or plans to make regarding [REDACTED]
[REDACTED]
- i. [REDACTED]
- j. Identify the consumer data that will be shared with [REDACTED] as well as any controls in place to protect PII and limit sharing. In your response, indicate whether any PII will be stored [REDACTED]
[REDACTED]

DOCUMENT 9



Dallas Regional Office
600 North Pearl Street, Suite 700
Dallas, Texas 75201
(214) 754-0098 FAX (972) 761-2082

SENT VIA SECURED ELECTRONIC MAIL

May 4, 2022

The Board of Directors
[REDACTED]
[REDACTED]
[REDACTED]

Subject: Proposed Crypto Asset Capability

Dear Members of the Board:

This office received [REDACTED] that provided high-level information about the bank's intent to provide a crypto asset capability [REDACTED]. We thank you for your timely notification as requested by Financial Institution Letter (FIL-16-2022) dated April 7, 2022.

At this time the FDIC has not yet determined what, if any, regulatory filings will be necessary for a bank to engage in this type of activity. As a result, we respectfully ask that you not implement this product, while we consider this crypto asset-related activity.

As we review your proposed activity, we will continue to correspond with your institution regarding additional information requests to aid us in our assessment of the activity. In the meantime, you may direct questions on this matter to [REDACTED]. Written correspondence should be addressed to Kristie K. Elmquist, Regional Director, FDIC, Dallas Regional Office, and sent as a PDF document through the FDIC's Secure Email portal (<https://securemail.fdic.gov/>) using the following e-mail address: DALMailRoom@fdic.gov. Information about how to use secure email and FAQs about the service can be found at <https://www.fdic.gov/secureemail/>.

Sincerely,

/s/ J. Mark Love

J. Mark Love
Assistant Regional Director

cc: Federal Reserve Bank of Dallas
[REDACTED]

DOCUMENT 10



Dallas Regional Office
600 North Pearl Street, Suite 700
Dallas, Texas 75201
(214) 754-0098 FAX (972) 761-2082

May 13, 2022

Board of Directors

[REDACTED]
[REDACTED]
[REDACTED]

Subject: [REDACTED]

Dear Members of the Board:

By letter dated [REDACTED] advised the FDIC and the [REDACTED] of the Bank's intent to offer Bank customers [REDACTED];

[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

By letter dated [REDACTED] additional information was received [REDACTED] this service, and a brief conference call [REDACTED] [REDACTED]. By letter dated [REDACTED], the FDIC and [REDACTED] outlined certain information [REDACTED]
[REDACTED]

On April 7, 2022, the FDIC issued a Financial Institution Letter, FIL-16-2022, explaining a notification and supervisory feedback process concerning a bank's current or planned crypto-asset related activity. That FIL is available here: <https://www.fdic.gov/news/financial-institution-letters/2022/fil22016.html>.

[REDACTED]
[REDACTED]
[REDACTED]

The FDIC continues to review [REDACTED] and various questions remain outstanding, including with respect to the legal permissibility of this activity, the potential applicability of part 362 of the FDIC Rules and Regulations, and safety and soundness and consumer protection principles. Consistent with the procedures outlined in FIL-16-2022, the FDIC will make future information requests to assist us in reviewing the activity and providing supervisory feedback to the Bank. Accordingly, until we complete our review, we request that the Bank refrain from expanding this service to additional customers.

[REDACTED]

If you have any questions, please contact Assistant Regional Director Cindy Scott at [REDACTED]. Written correspondence should be addressed to my attention at the Dallas Regional Office, and sent as a PDF document through the FDIC's Secure Email portal (<https://securemail.fdic.gov/>) using the following e-mail address: DALMailRoom@fdic.gov. Information about how to use secure email and FAQs about the service can be found at <https://www.fdic.gov/secureemail/>.

Sincerely,

Kristie K. Elmquist
Regional Director

[REDACTED]

DOCUMENT 11



Federal Deposit Insurance Corporation

Division of Risk Management Supervision and Division of Depositor and Consumer Protection
350 5th Avenue, New York, NY 10018

New York Regional Office

June 22, 2022

Board of Directors

[REDACTED]

Subject: [REDACTED] Notice to Engage in Digital Asset Activities under FIL-16-2022

Dear Members of the Board:

We received the subject correspondence [REDACTED] in response to Financial Institution Letter 16-2022, notifying the FDIC of the Bank's intent to engage in activities involving digital assets. New York Regional Office staff has met numerous times with Bank management over the past several months regarding these proposed activities. We appreciate management's efforts to keep us informed as the Bank has conducted due diligence and explored its entry into the digital asset space.

The FDIC has a number of questions regarding the activities based on the information provided to date. The FDIC plans to conduct a targeted review of the Bank's planned digital asset activities [REDACTED] to gain an understanding of how the Bank will ensure continued safe and sound operations and consumer protections, should these activities be implemented. A document request list related to this targeted review was provided under separate cover. The Bank should address these questions, in advance of implementation of the proposed activities, in order for the FDIC to assess the safety and soundness of the proposed activities¹ and compliance with laws and regulations.

If you have any questions, please contact Assistant Regional Director Ashley M. Amicangioli at [REDACTED] or Assistant Regional Director Kara L. Ritchie at [REDACTED].

Sincerely,
Jessica A. Kaemingk
Acting Regional Director

CC: [REDACTED]

¹ See e.g., Section 39 of the Federal Deposit Insurance Act and Part 364 of the FDIC Rules and Regulations.

DOCUMENT 12



Federal Deposit Insurance Corporation
Division of Risk Management Supervision
Division of Depositor and Consumer Protection
300 South Riverside Plaza, Suite 1700, Chicago, IL 60606

Chicago Regional Office
Phone (312) 382-7500
Fax (312) 382-6901

June 27, 2022

Board of Directors

[REDACTED]

Subject: [REDACTED]

[REDACTED] Members of the Board:

By letter dated [REDACTED] [REDACTED] advised the FDIC, in response to Financial Institution Letter 16-2022 (FIL-16-2022),¹ and [REDACTED] of the Bank's intent to offer Bank customers [REDACTED]

[REDACTED]

[REDACTED]

The FDIC continues to review [REDACTED] and various questions remain outstanding. Consistent with the procedures outlined in FIL-16-2022, the FDIC will request additional information to assist us in reviewing the activity and providing supervisory feedback to the Bank. Accordingly, until we complete our review, we request that the Bank refrain from expanding this service.

If you have any questions, please contact [REDACTED]. Written correspondence should be addressed to my attention at the Chicago Regional Office, and sent as a PDF document through [REDACTED]

¹ On April 7, 2022, the FDIC issued FIL-16-2022, explaining a notification and supervisory feedback process concerning a bank's current or planned crypto-asset related activity. FIL-16-2022 is available here: <https://www.fdic.gov/news/financial-institution-letters/2022/fil22016.html>.

the FDIC's Secure Email portal (securemail.fdic.gov) using the following e-mail address:
CHIMailRoom@FDIC.gov.

Sincerely,

Gregory P. Bottone
Regional Director

[REDACTED]

DOCUMENT 13



Federal Deposit Insurance Corporation

350 Fifth Avenue, Suite 1200, New York, NY 10118

New York Regional Office

June 30, 2022

Board of Directors

[Redacted]

Subject: [Redacted]

Dear Members of the Board:

[Redacted]

In a letter dated [Redacted] provided an overview of the program and due diligence activities in response to the FDIC Financial Institution Letter, FIL-16-2022, dated April 7, 2022 (FIL-16-2022). FIL-16-2022 explains the notification and supervisory feedback process concerning current or planned crypto-asset-related activity. On June 1, 2022, the Bank, the FDIC, and [Redacted] discussed the program again. [Redacted]

The FDIC continues to review [Redacted] and various questions remain outstanding. Consistent with the procedures outlined in FIL-16-2022, the FDIC will request additional information to assist us in reviewing the activity and providing supervisory feedback to the Bank. Accordingly, until we complete our review, we request that the bank refrain from expanding this service.

If you have any questions, please contact Assistant Regional Director Catherine H. Goni at [Redacted]. Written correspondence should be addressed to my attention at the New York Regional Office, and sent as a PDF document through the FDIC's Secure Email portal (securemail.fdic.gov) using the following e-mail address: NYMailroom@fdic.gov. Information about how to use secure email and FAQs about the service can be found at <https://www.fdic.gov/secureemail/>.

Sincerely,
Jessica A. Kaemingk
Acting Regional Director

[Redacted]

[Redacted]

DOCUMENT 14



Division of Risk Management Supervision
Division of Depositor and Consumer Protection

Dallas Regional Office
600 North Pearl Street, Suite 700
Dallas, Texas 75201
(214) 754-0098 FAX (972) 761-2082

July 14, 2022

Board of Directors

[REDACTED]

Subject: [REDACTED]

[REDACTED] Members of the Board:

By letter dated [REDACTED] provided notification pursuant to Financial Institution Letter-16-2022, *Notification of Engaging in Crypto-Related Activities* (FIL-16-2022), of its program offering customers [REDACTED]

On [REDACTED] the FDIC held a videoconference meeting, with members of the Bank's executive team to discuss [REDACTED] [REDACTED] represented the Bank. Assistant Regional Director (ARD) J. Mark Love, ARD Cynthia Scott, ARD Akhtar Khan, and Case Manager [REDACTED] represented the FDIC.

During the meeting, [REDACTED] informed the FDIC that the program is live as of [REDACTED] [REDACTED] [REDACTED] [REDACTED] [REDACTED] [REDACTED] [REDACTED] [REDACTED] [REDACTED] [REDACTED]

The FDIC continues to review crypto-related activities and various questions remain outstanding. Consistent with the procedures outlined in FIL-16-2022, the FDIC may request additional information to assist us in reviewing the activity and providing supervisory feedback to the Bank. Accordingly, until we complete our review, we request that the Bank refrain from expanding this service.

If you have any questions, please contact ARD Love at [REDACTED] Written correspondence should be addressed to Kristie K. Elmquist, Regional Director, FDIC, Dallas Regional Office, and sent as a PDF document through the FDIC's Secure Email portal (<https://securemail.fdic.gov/>) using the following e-mail address: DALMailRoom@fdic.gov. Information about how to use secure email and FAQs about the service can be found at <https://www.fdic.gov/secureemail/>.

[REDACTED]

Page 2

Sincerely,

/s/ Kristie K. Elmquist

Kristie K. Elmquist
Regional Director

[REDACTED]

DOCUMENT 15



FDIC
Federal Deposit Insurance Corporation
25 Jessie Street at Ecker Square, Suite 2300
San Francisco, California 94105

Division of Risk Management Supervision
San Francisco Regional Office
(415) 546-0160

July 27, 2022

Board of Directors

[REDACTED]

Subject: Notification of Crypto-Related Activity

Dear Members of the Board:

By letter dated [REDACTED] notified the FDIC and [REDACTED] that the Bank will provide its customers [REDACTED]

[REDACTED]

On April 7, 2022, the FDIC issued a Financial Institution Letter, FIL-16-2022, explaining a notification and supervisory feedback process concerning a bank's current or planned crypto-asset related activity. That FIL is available here: <https://www.fdic.gov/news/financial-institution-letters/2022/fil22016.html>.

[REDACTED]

On [REDACTED] Safety and Soundness examination began. [REDACTED] examiners and bank management held an MS Teams Meeting to present an additional request list related to the proposed crypto activities. During the meeting, [REDACTED]

[REDACTED]

The FDIC continues to review [REDACTED] and various questions remain outstanding. Consistent with the procedures outlined in FIL-16-2022, the FDIC has requested information as part of the examination process and may request additional information to assist us in reviewing the activity and providing supervisory feedback to the Bank. Accordingly, until we complete our review, we request that the Bank refrain from expanding this service to its customers.

If you have any questions, please contact RMS Assistant Regional Director David Wong at [REDACTED] or DCP Assistant Regional Director Matthew Sheeren at [REDACTED]. Written correspondence should be addressed to my attention at the San Francisco Regional Office, and sent as a PDF document through the FDIC's Secure Email portal (<https://securemail.fdic.gov/>) using the following e-mail address: SFMailroom@FDIC.gov. Information about how to use secure email and FAQs about the service can be found at <https://www.fdic.gov/secureemail/>.

Sincerely,

Digitally signed by
KATHY MOE
Date: 2022.07.27
15:37:45 -0700

Kathy L. Moe
Regional Director

cc: [REDACTED]

DOCUMENT 16



FDIC
Federal Deposit Insurance Corporation
25 Jessie Street at Ecker Square, Suite 2300
San Francisco, California 94105

Division of Risk Management Supervision
Division of Consumer Protection
San Francisco Regional Office
(415) 546-0160

Sent via secure email to [REDACTED]

July 28, 2022

Board of Directors
[REDACTED]

Subject: Notification of Engaging in Crypto-Related Activities

Dear Members of the Board:

On [REDACTED] submitted [REDACTED] draft three-year business plan (Plan) pursuant to FDIC's Financial Institution Letter-16-2022, *Notification of Engaging in Crypto-Related Activities* (FIL-16-2022). We also held a brief discussion with [REDACTED]

[REDACTED] As discussed during the call, the Plan [REDACTED] the bank's business model [REDACTED]

While the FDIC continues to review the bank's Plan pursuant to FIL-16-2022, in order to assess the safety and soundness and consumer protection implications of such activities, additional information is needed and questions remain outstanding. [REDACTED]

[REDACTED] it is essential for management to [REDACTED] prior to implementation to ensure planned activities and strategies are consistent with current laws, rules, and regulations, as well as safety and soundness and consumer protection principles. Examples of incomplete, but essential, elements that we request the opportunity to review, when available, include the following:

- Risk assessments [REDACTED],
- Due diligence [REDACTED]
- Policies and procedures [REDACTED]
- Project plans and cost benefit analysis [REDACTED],
- Formal succession plan [REDACTED],

Board of Directors

[REDACTED]

Page 2

- Draft contracts and legal agreements [REDACTED]
- Legal analysis of the permissibility of the proposed [REDACTED] under Part 362 of the FDIC's Rules and Regulations, including [REDACTED]
- Also with respect to [REDACTED]
- Banking services [REDACTED]
- Plans to expand [REDACTED] and expected impacts to the Community Reinvestment Act (CRA) performance,
- Any assessment of consumer protection risk [REDACTED]
- Analysis performed with respect to SEC Staff Accounting Bulletin No. 121 and proposed new products and services, and,
- Plans for ongoing monitoring and audit [REDACTED]

[REDACTED]

[REDACTED] Consistent with the procedures outlined in FIL-16-2022, the FDIC may make future information requests to assist us in reviewing the activities and providing any relevant supervisory feedback to the bank. Accordingly, until we complete our review, we request that the bank not proceed with planned activities, pending FDIC supervisory feedback, and that you continue to update us on developments in the bank's risk management framework and compliance management system.

If you have any questions related to Risk Management, please contact Assistant Regional Director Jaclyn Valderrama or [REDACTED] respectively. For questions related to Consumer Protection, please contact Assistant Regional Director Matthew Sheeren or [REDACTED] respectively. Written correspondence should be addressed to my attention at the San Francisco Regional Office, and sent as a PDF document through the FDIC's Secure Email

Board of Directors
[REDACTED]

Page 3

portal (<https://securemail.fdic.gov/>) using the following e-mail address: SFMailRoom@fdic.gov. Information about how to use secure email and FAQs about the service can be found at <https://www.fdic.gov/secureemail/>.

Sincerely,

/s/ Kathy L. Moe

Kathy L. Moe
Regional Director

cc: [REDACTED]

DOCUMENT 17



Federal Deposit Insurance Corporation
1100 Walnut Street, Suite 2100, Kansas City, MO 64106

Division of Risk Management Supervision

August 9, 2022

Board of Directors

[REDACTED]

Subject: [REDACTED]

Dear Members of the Board:

By letter dated [REDACTED] advised the FDIC of the bank's intent to offer customers [REDACTED] in response to FIL-16-2022.¹ [REDACTED]

[REDACTED]

On [REDACTED] the Bank discussed the [REDACTED] with the FDIC Division of Depositor and Consumer Protection – Kansas City Regional Office (RO). Follow-up discussions were held on [REDACTED]. During the course of those discussions Bank management explained [REDACTED]

[REDACTED] By letter [REDACTED], additional information from the Bank was forwarded to the RO documenting [REDACTED]

The FDIC continues to review [REDACTED] and various questions remain outstanding. Consistent with the procedures outlined in FIL-16-2022, the FDIC will make future information requests to assist us in reviewing the activity and providing supervisory feedback to the Bank. Accordingly, until we complete our review, we request that the Bank refrain from expanding this service to additional customers.

¹ On April 7, 2022, the FDIC issued a Financial Institution Letter, FIL-16-2022, explaining a notification and supervisory feedback process concerning a bank's current or planned crypto-asset related activity. That FIL is available here: <https://www.fdic.gov/news/financial-institution-letters/2022/fil22016.html>.

If you have any questions, please contact Assistant Regional Director Michele Sharp or Case Manager Nick Ellwanger at [REDACTED]. Written correspondence should be addressed to my attention at the Kansas City Regional Office, and sent as a PDF document through the FDIC's Secure Email portal (<https://securemail.fdic.gov/>) using the following e-mail address: KCMailRoom@fdic.gov. Information about how to use secure email and FAQs about the service can be found at <https://www.fdic.gov/secureemail/>.

Sincerely,
James D. LaPierre
Regional Director

[REDACTED]

DOCUMENT 18



FEDERAL DEPOSIT INSURANCE CORPORATION
10 10th Street NE, Suite 800
Atlanta, Georgia 30309-3849

Atlanta Regional Office
Division of Risk Management Supervision
Division of Depositor and Consumer Protection
(678) 916-2200

August 26, 2022

Board of Directors

[Redacted]
[Redacted]
[Redacted]

Subject: Notification of Crypto-Related Activity

Dear Members of the Board:

On [Redacted] the FDIC received [Redacted] notification, in response to Financial Institution Letter (FIL), [FIL-16-2022, Notification of Engaging in Crypto-Related Activities](#), of the Bank's intent to engage in crypto-asset related activity by offering customers [Redacted]. [Redacted] FIL-16-2022 requested that all FDIC-supervised institutions that intend to engage in, or that are currently engaged in, any activities involving or related to crypto-assets (also referred to as "digital assets") promptly notify the appropriate FDIC Regional Director. [Redacted]

[Redacted]
[Redacted]

[Redacted]

As stated in FIL-16-2022, the FDIC may request that institutions provide information necessary to allow the FDIC to assess the safety and soundness, consumer protection, and financial stability implications of such activities. To assess these risks, the FDIC is reviewing the notification and information provided, and is also assessing whether [Redacted]

[Redacted]
[Redacted]

To assist in our review of the proposed activities, please provide the documentation referenced in the Appendix attached to this letter. We will review this documentation to assess the safety and soundness, consumer protection, and [Redacted] stability implications of such activities as it is received and in conjunction with the safety and soundness examination [Redacted]

[Redacted] When we have completed our review, the FDIC will provide the institution with relevant supervisory feedback, as appropriate. Accordingly, until we complete our review, we request that the Bank refrain from providing this service to its customers.

Please submit the information requested in the Appendix to the FDIC as a PDF file to ATLMailRoom@fdic.gov using the secure message center at <https://securemail.fdic.gov>. The

information should be submitted to this office by [REDACTED]. If you foresee any issues with meeting this deadline, please contact the individuals identified below.

If you have any questions related to Risk Management, please contact [REDACTED].
[REDACTED] If you have any questions related to Consumer Protection, please contact [REDACTED].

Sincerely,

Frank R. Hughes
Acting Regional Director

cc: [REDACTED]

Appendix
Crypto-Related Activity Request List

Please provide the following documentation in relation to the proposed crypto-related activities:

1. All contracts (including any draft contracts that the Bank is reviewing/considering);
2. Overview of the contracting process (e.g., who is/was involved in the review, analysis, and structuring);
3. Any contract analysis performed prior to execution;
4. [REDACTED]
5. [REDACTED]
6. The Bank's permissibility analysis and determination with respect to each activity;
7. The Bank's analysis of SEC SAB 121 and its applicability;
8. Any cost-benefit analysis conducted;
9. Project plan for each activity;
10. [REDACTED]
11. [REDACTED]
12. [REDACTED]
13. [REDACTED]
14. [REDACTED]
15. Copies of consumer agreements, disclosures, and other terms and conditions related to each of the activities provided by or through the Bank and by third parties (draft or proposed);
16. Marketing materials, press releases, internal scripts, educational materials, and any other publicly distributed information related to each of the activities (draft or proposed). This includes screen shots/screen recordings of any online banking or mobile application user interfaces (including hidden text that must be clicked) that will be made visible to consumers by, or through, the Bank in connection with each of the activities;

17. Strategic plan that details how crypto-asset activities achieve the objectives of the Board and any contingency plan, should the activities fail to achieve the objectives;
18. Implementation plan. For each activity, please include expected volumes, income projections used to determine whether the products are financially feasible, and any other analysis performed to support launching the products;
19. Board and committee minutes reflecting discussion, analysis, approval, and any documentation provided on the activities;
20. Internal training materials related to the activities;
21. Policies and procedures that will govern each of the crypto-related activities, including those related to consumer compliance and complaint resolution (we acknowledge receipt of the policy outline previously submitted, this request is for the policies and procedures);
22. If not outlined in policies and procedures, framework of assigned responsibilities and qualifications for those involved in day-to-day administration of crypto-related activity, including internal controls responsibilities. Description of oversight responsibilities (e.g., management, staff, committees (including members, frequency of meetings), and collectively, their approval authority); and
23. [REDACTED]
24. Describe how the risk assessment was developed, what policies govern the structure/process for risk assessments, and which staff performed the risk assessment. Explain how the Bank determined the risk assessment scope is appropriate for all three product types collectively (trading, interest enhancement, and rewards).
25. [REDACTED]
 - a. [REDACTED]

DOCUMENT 19



Federal Deposit Insurance Corporation
Division of Risk Management Supervision
Division of Depositor and Consumer Protection
300 South Riverside Plaza, Suite 1700, Chicago, IL 60606

Chicago Regional Office
Phone (312) 382-7500
Fax (312) 382-6901

September 9, 2022

Board of Directors

[REDACTED]

Subject: Third-Party Crypto-Asset Activity

Dear Members of the Board:

On [REDACTED] submitted a notification of the Bank's intended crypto-asset activities in response to Financial Institution Letter-16-2022, *Notification of Engaging in Crypto-Related Activities (FIL-16-2022)*. [REDACTED] also held a discussion with [REDACTED] regarding the proposed crypto-asset activities. As discussed during the call, [REDACTED]

The FDIC requests insured depository institutions provide sufficient information to assist the FDIC to assess the safety and soundness, consumer protection, and financial stability implications of crypto-asset activities. The FDIC requests the Bank provide the information in the attached list by [REDACTED], so that the FDIC may begin those assessments. If the requested information has not yet been developed, provide the status and timeline for developing each item in the response, as applicable. Once the FDIC has completed its review of the requested information, we will determine whether additional information is necessary to complete the review of the activity. When we have completed our review, the FDIC will provide the institution with relevant supervisory feedback, as appropriate. Accordingly, until we complete our review, we request that the Bank not proceed with planned activities, pending FDIC supervisory feedback.

If you have any questions, please contact [REDACTED]. Written correspondence should be addressed to my attention at the Chicago Regional Office, and sent as a PDF document through the FDIC's Secure Email portal (securemail.fdic.gov) using the following e-mail address: CHIMailRoom@FDIC.gov.

Sincerely,
Gregory P. Bottone
Regional Director

Enclosure – Crypto-Asset Activity Request List

cc: [REDACTED]
Federal Reserve Bank of Chicago

Crypto-Asset Activity Request List

1. Strategic Plan that details how crypto-related activity achieves objectives of the Bank's Board and the Contingency Plan in the event the activity fails to achieve those objectives.
2. Project/Implementation plan including, but not limited to, expected volumes of activity or contemplated activity limits, cost benefit analysis including income projections used to determine whether the services are financially feasible, and any other analysis performed to support launching the services.
3. Risk assessments for all crypto-related services. Consideration should be made to Safety and Soundness, Information Technology, Anti-Money Laundering/Combating the Financing of Terrorism, and Consumer Compliance.
4. Vendor management due diligence documentation, and analysis for all vendors that will provide crypto-related technologies or services.
5. Board and committee minutes reflecting approval, discussion, analysis, and any documentation provided on the activity.
6. Draft contracts and legal agreements between the Bank and crypto-related third party vendors.
7. Policies and procedures that will govern the crypto-related activity, including those related to consumer compliance and complaint resolution.
8. If not outlined in policies and procedures, the framework of assigned responsibilities and qualifications for those involved in day-to-day administration of digital asset activity, including internal controls responsibilities, and a description of oversight responsibilities, for example: management; staff; committees, including committee members; frequency of meetings; and collectively, their approval authority, and expertise required to be a committee member.
9. Draft marketing plans, including press releases, educational and training materials, and any other proposed public distributions.
10. Draft consumer agreements, disclosures, or other terms and conditions related to these activities provided by, or through, the Bank and by third parties.
11. Legal analysis of the permissibility of the proposed services under part 362 of the FDIC's Rules and Regulations, and [REDACTED]
12. Analysis performed with respect to SEC Staff Accounting Bulletin No. 121 and proposed services.
13. Plans for ongoing monitoring and audit of crypto-related products and services.

DOCUMENT 20



FEDERAL DEPOSIT INSURANCE CORPORATION
10 10th Street NE, Suite 800
Atlanta, Georgia 30309-3849

Atlanta Regional Office
Division of Risk Management Supervision
Division of Depositor and Consumer Protection
(678) 916-2200

September 13, 2022

Sent via secure email

Board of Directors
[REDACTED]
[REDACTED]
[REDACTED]

Subject: Third-Party Crypto-Asset Activity

Dear Members of the Board:

On [REDACTED] we received [REDACTED] notification, in response to Financial Institution Letter (FIL), [FIL-16-2022, Notification of Engaging in Crypto-Related Activities](#), of the Bank's intent to offer customers [REDACTED]

FIL-16-2022 requests that all FDIC-supervised institutions that intend to engage in, or that are currently engaged in, any activities involving or related to crypto-assets (also referred to as "digital assets") promptly notify the appropriate FDIC Regional Director.

As stated in FIL-16-2022, the FDIC may request that institutions provide information necessary to allow the FDIC to assess the safety and soundness, consumer protection, and financial stability implications of such activities. In order to begin those assessments, please provide the information in the attached list by November 14, 2022. If the requested information has not yet been developed, include the status and timeline for developing each item in the response, as applicable. Once the FDIC has completed its review of the above-requested information, we will determine whether additional information is necessary to complete the review of the activity. When we have completed our review, the FDIC will provide the institution with relevant supervisory feedback, as appropriate. Accordingly, until we complete our review, we request that the Bank refrain from providing these services to its customers.

Board of Directors
[REDACTED]

Page 2 of 2

This letter is confidential and may not be disclosed or made public in any manner under part 309 of the FDIC Rules and Regulations (12 CFR part 309). If you have any questions, please contact [REDACTED]

[REDACTED] Written correspondence should be addressed to my attention at the Atlanta Regional Office, and sent as a PDF document through the FDIC's Secure Email portal (securemail.fdic.gov) using the following e-mail address: ATLMailRoom@fdic.gov.

Sincerely,

John F. Vogel
Acting Regional Director

JOHN
VOGEL
Digitally signed
by JOHN VOGEL
Date: 2022.09.13
16:45:08 -04'00'

cc: [REDACTED]

Enclosure

Crypto-Asset Activity Request List

Documentation (Prospective):

1. Contracts (including any draft contracts that bank is reviewing/considering);
2. Overview of the contracting process (e.g., who is/was involved in the review, analysis, and structuring)
3. Any contract analysis performed prior to execution
4. The bank's permissibility analysis and determination with respect to the activity
5. Bank's analysis of SEC SAB 121 and its applicability
6. Cost-benefit analysis
7. Project plan
8. [REDACTED],
[REDACTED],
[REDACTED],
[REDACTED]
10. Description of any fees that will be charged to consumers related to the activity, and how they will be calculated. Also, describe if and how fees are split amongst the bank and any third parties involved in the activity.
11. [REDACTED]
[REDACTED]
[REDACTED]
This includes providing an explanation of how any market price is determined and how the spread, if any, is calculated.
13. Consumer agreements, disclosures, and other terms and conditions related to the activities provided by or through the bank and by third parties (draft or proposed)
14. Marketing materials, press releases, internal scripts, educational materials, and any other publicly-distributed information related to the activity (draft or proposed). This includes screen shots/screen recordings of any online banking or mobile application user interfaces (including hidden text that must be clicked) that will be made visible to consumers by, or through, the bank in connection with activities.
15. Any other due diligence materials.
16. Strategic plan that details how crypto-asset activity achieves objectives of the board and the contingency plan should the activity fail to achieve the objectives.
17. Implementation plan. Please include expected activity volumes, income projections used to determine whether the products are financially feasible, and any other analysis performed to support launching the products.
18. Board and committee minutes reflecting discussion, analysis, approval, and any documentation provided on the activity.
19. Risk assessment(s) related to the activity.
20. Internal training materials related to the activity.
21. Policies and procedures that will govern the crypto-related activity, including those related to consumer compliance and complaint resolution.
22. If not outlined in policies and procedures, framework of assigned responsibilities and qualifications for those involved in day-to-day administration of crypto-related activity, including internal controls responsibilities. Description of oversight responsibilities (e.g. management, staff, committees (including members, frequency of meetings), and collectively, their approval authority).

DOCUMENT 21



600 North Pearl Street, Suite 700
Dallas, Texas 75201
(214) 754-0098 FAX (972) 761-2082

Dallas Regional Office
Division of Risk Management Supervision
Division of Depositor and Consumer Protection

SENT VIA SECURE ELECTRONIC EMAIL

September 14, 2022

Board of Directors

[REDACTED]

Subject: Notification of Crypto-Asset Related Activity

Dear Members of the Board:

By email dated [REDACTED]
notified us of [REDACTED] intent to provide its customers [REDACTED]

As stated in FIL-16-2022, *Notification of Engaging in Crypto-Related Activities*, the FDIC may request that institutions provide information necessary to allow the FDIC to assess the safety and soundness, consumer protection, and financial stability implications of such activities. In order to begin those assessments, please provide the information in the attached list **by November 14, 2022**. If the requested information has not yet been developed, please include the status and timeline for developing each item in the response, as applicable. Once the FDIC has completed its review of the requested information, we will determine whether additional information is necessary to complete the review of the activity. When we have completed our review, the FDIC will provide the institution with relevant supervisory feedback, as appropriate. Accordingly, until we complete our review, we request that the bank refrain from providing this service to its customers.

This letter is confidential and may not be disclosed or made public in any manner under part 309 of the FDIC Rules and Regulations (12 CFR part 309). If you have any questions, please contact [REDACTED]. Written correspondence should be addressed to Kristie K. Elmquist, Regional Director, FDIC, Dallas Regional Office, and sent as a PDF document through the FDIC's Secure Email portal (<https://securemail.fdic.gov/>) using the following e-mail address: DALMailRoom@fdic.gov. Information about how to use secure email and FAQs about the service can be found at <https://www.fdic.gov/secureemail/>.

[REDACTED]

Sincerely,

Kristie K. Elmquist
Regional Director

Attachment

cc: Federal Reserve Bank of Dallas

[REDACTED]

Crypto-Asset Activity Request List [REDACTED]

Documentation:

1. Contracts (including any draft contracts that bank is reviewing/considering)
2. Overview of the contracting process (e.g., who is/was involved in the review, analysis, and structuring)
3. Any contract analysis performed prior to execution
4. Description of the transaction flows and related controls
5. [REDACTED]
6. [REDACTED]
7. Bank's analysis of SEC SAB 121 and its applicability
8. Cost-benefit analysis
9. Project plan
10. [REDACTED]
11. [REDACTED]
12. Description of any fees that will be charged to consumers related to the activity, and how they will be calculated. Also, describe if and how fees are split amongst the bank and any third-parties involved in the activity.
13. [REDACTED]
14. [REDACTED]
15. Consumer agreements, disclosures, sample account statement, sample transaction receipt, and other terms and conditions related to the activities provided by or through the bank and by third parties (draft or proposed)
16. Marketing materials, press releases, internal scripts, educational materials, and any other publicly-distributed information related to the activity (draft or proposed). This includes screen shots/screen recordings of any online banking or mobile application user interfaces (including hidden text that must be clicked) that will be made visible to consumers by, or through, the bank in connection with activities.
17. Any other due diligence materials
18. Strategic plan that details how crypto-asset activity achieves objectives of the board and the contingency plan should the activity fail to achieve the objectives
19. Implementation plan. Please include expected activity volumes, income projections used to determine whether the products are financially feasible, and any other analysis performed to support launching the products.
20. Board and committee minutes reflecting discussion, analysis, approval, and any documentation provided on the activity
21. Risk assessment(s) related to the activity
22. Internal training materials related to the activity

23. Policies and procedures that will govern the crypto-related activity, including those related to consumer compliance and complaint resolution
24. If not outlined in policies and procedures, framework of assigned responsibilities and qualifications for those involved in day-to-day administration of crypto-related activity, including internal controls responsibilities. Description of oversight responsibilities (e.g. management, staff, committees (including members, frequency of meetings), and collectively, their approval authority).

DOCUMENT 22



Federal Deposit Insurance Corporation
Division of Risk Management Supervision
25 Jessie Street at Ecker Square, Suite 2300
San Francisco, CA 94105

[REDACTED]

Transmitted by Electronic Correspondence

October 17, 2022

[REDACTED]

RE: Notification of Crypto-Related Activities

Dear [REDACTED]:

On [REDACTED] we received your letter notifying the FDIC and [REDACTED] of your institution's involvement in crypto-related activities, in response to Financial Institution Letter (FIL), [FIL-16-2022, Notification of Engaging in Crypto-Related Activities](#). FIL-16-2022 requested that all FDIC-supervised institutions that intend to engage in, or that are currently engaged in, any activities involving or related to crypto-assets (also referred to as "digital assets") promptly notify the appropriate FDIC Regional Director.

[REDACTED]

After a review of the Bank's notification letter, we have determined that additional information is needed to further clarify the crypto-related activities being conducted [REDACTED] by the Bank.

As stated in FIL-16-2022, the FDIC may request that institutions provide information necessary to allow the FDIC to assess the safety and soundness, consumer protection, and financial stability implications of such activities. To assist in the review of the Bank's crypto-related activities, please provide the documentation listed below within 30 days of the date of this letter.

- [REDACTED]

This letter is confidential and may not be disclosed or made public in any manner. Additional information regarding these confidentiality restrictions may be found both in Part 309 of the FDIC Rules and Regulations and Chapter 167 Section 2 of Massachusetts General Law. Please notify regulators immediately if you receive a subpoena or other legal process calling for the production of this letter or a description of its content.

[Redacted]

Page 2

- [Redacted] Provide supporting documentation and analysis. Include financial statement disclosures concerning these activities.
- [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]

Until we complete our review, we request the Bank refrain from [Redacted]
 [Redacted] When we have completed our review, we will provide the institution with relevant supervisory feedback, as appropriate.

Please notify us of any material changes in these activities or intent to engage in other crypto-related activities. This letter is confidential and may not be disclosed or made public in any manner under part 309 of the FDIC Rules and Regulations (12 CFR part 309). Questions should be directed to FDIC [Redacted]
 [Redacted]

Sincerely,

/s/ Kathy L. Moe

Kathy L. Moe
 Regional Director
 Federal Deposit Insurance Corporation

[Redacted]
 [Redacted]

DOCUMENT 23



FDIC
Federal Deposit Insurance Corporation
25 Jessie Street at Ecker Square, Suite 2300
San Francisco, California 94105

Division of Risk Management Supervision
Division of Consumer Protection
San Francisco Regional Office
(415) 546-0160

Sent via secure email

October 21, 2022

Board of Directors

[REDACTED]
[REDACTED] [REDACTED]
[REDACTED]

Subject: Notification of Engaging in Crypto-Related Activities

Dear Members of the Board:

During a virtual meeting held on [REDACTED]
[REDACTED]
[REDACTED] and other bank personnel presented and discussed the bank's [REDACTED]
[REDACTED] with staff of the FDIC and [REDACTED]. During the meeting,
bank management presented an overview of the [REDACTED] activity to offer bank
customers [REDACTED]. They also
discussed management's risk assessment; the extent of contractual agreements; [REDACTED]
[REDACTED]
planned timeframe for implementation; the extent of [REDACTED]
[REDACTED]

On [REDACTED], during a virtual meeting, bank management provided an update to FDIC and
[REDACTED] staff on the project and their ongoing due diligence. Bank management also provided
additional documents and information on [REDACTED] in response to follow-
up requests from the FDIC. On [REDACTED]
notified [REDACTED] that the project had [REDACTED]
[REDACTED] as part of the bank's ongoing due diligence.

On [REDACTED] 2, the FDIC issued Financial Institution Letter (FIL)-16-2022 ("Notification of
Engaging in Crypto-Related Activities"). FIL-16-2022 requested that all FDIC-supervised
institutions that intend to engage in, or that are currently engaged in, any activities involving or
related to crypto-assets (also referred to as "digital assets") promptly notify the appropriate FDIC
Regional Director and outlined a supervisory feedback process concerning a bank's current or
planned crypto-asset related activity. The FIL is available at
<https://www.fdic.gov/news/financial-institution-letters/2022/fil22016.html>. As stated in FIL-16-
2022, the FDIC may request that institutions provide information necessary to allow the FDIC to
assess the safety and soundness, consumer protection, and financial stability implications of such
activities. On [REDACTED] the FDIC submitted a list of requested information to the bank,

Board of Directors
[REDACTED]

Page 2

which is currently under review as part of the examination that began on [REDACTED]. When we have completed our review, the FDIC will provide the bank with relevant supervisory feedback, as appropriate. Until we complete our review, we request that the bank refrain from providing this service to its customers.

Please notify us during our review period if there are any material changes in the planned service, the status of this project, or its planned implementation, to ensure that the bank is operating in a safe and sound manner and in compliance with consumer protection regulations.

This letter is confidential and may not be disclosed or made public in any manner under part 309 of the FDIC Rules and Regulations (12 CFR part 309). If you have any questions related to Risk Management, please contact Assistant Regional Director Jaclyn Valderrama at [REDACTED] or [REDACTED]. For questions related to Consumer Protection, please contact Assistant Regional Director Matthew Sheeren at [REDACTED] or Review Examiner Rolin Thomas at [REDACTED]. Written correspondence should be addressed to my attention at the San Francisco Regional Office, and sent as a PDF document through the FDIC's Secure Email portal (<https://securemail.fdic.gov/>) using the following e-mail address: SFMailRoom@fdic.gov. Information about how to use secure email and FAQs about the service can be found at <https://www.fdic.gov/secureemail/>.

Sincerely,

/s/ Kathy L. Moe

Kathy L. Moe
Regional Director

cc: [REDACTED]

Federal Reserve Bank of San Francisco

Appendix C

History Associates Inc. v. FDIC, No. 1:24-cv-1857-ACR (D.D.C.)

FDIC's Redacted Pause Letters

January 3, 2025

DOCUMENT 1



Dallas Regional Office

600 North Pearl Street, Suite 700, Dallas, Texas
(214) 754-0098 FAX (972) 761-2082

Division of Risk Management Supervision
Division of Depositor and Consumer Protection

SENT VIA SECURED ELECTRONIC MAIL

March 11, 2022

The Board of Directors

[REDACTED]

Subject: Proposed New FinTech Product [REDACTED]

Dear Members of the Board:

This office received President and Chief Executive Officer [REDACTED] submission on February 25, 2022, that provided high-level information relating to the subject product. The proposed product is apparently an avenue for bank customers to engage in crypto asset activity, specifically Bitcoin transactions, through a third-party arrangement. However, at this time the FDIC has not yet determined what, if any, regulatory filings will be necessary for a bank to engage in this type of activity. As a result, we respectfully ask that you pause all crypto asset-related activity. The FDIC will notify all FDIC-supervised banks at a later date when a determination has been made on the supervisory expectations for engaging in crypto asset-related activity, including the need for any regulatory filings.

You may direct questions on this matter to Case Manager [REDACTED] at [REDACTED] [REDACTED] or me at [REDACTED]). As a reminder, written correspondence should be addressed to Kristie Elmquist, Regional Director, FDIC, Dallas Regional Office, and sent as a PDF document through the FDIC's Secure Email portal (<https://securemail.fdic.gov/>) using the following e-mail address: DALMailRoom@fdic.gov. Information about how to use secure email and FAQs about the service can be found at <https://www.fdic.gov/secureemail/>. If there are any questions about the Secure Email process, please contact Case Manager [REDACTED] or me at [REDACTED].

Sincerely,

Eric T. Guyot (Signed)

Eric T. Guyot
Assistant Regional Director

cc: Federal Reserve Bank of Atlanta

[REDACTED]

DOCUMENT 2



FEDERAL DEPOSIT INSURANCE CORPORATION
10 10th Street NE, Suite 800
Atlanta, Georgia 30309-3849

Atlanta Regional Office
Division of Risk Management Supervision
(678) 916-2200

March 15, 2022

Via Secure Email

██████████
President, ██████████
██████████
██████████

Subject: ██████████ Internal Blockchain

Dear ██████████:

Based on recent discussions with you and your management team, as well as review of documentation provided by the bank, our understanding is that ██████████ intends to offer bank clients an internal blockchain-based, real-time payments service provided by ██████████. You indicate that ██████████ is intended to enable real-time payments by tokenizing U.S. dollar deposits. The platform, as presented, is a closed-loop payments system that would involve the movement of tokens between existing ██████████ customers. Under this platform, all transactions and activities would remain within the bank, and no transactions would involve outside parties. We further understand that the bank has entered into a two-year agreement with ██████████ to provide this service.

Please notify us of any material change from the arrangement as described to the FDIC, including, but not limited to, expanding the service to include any clients, transactions or activities outside of the bank, such as through ██████████. Thereafter, the FDIC may have additional questions to clarify the bank's proposed activities prior to expanding the service to ensure the bank is operating in safe and sound manner.¹

If you have any questions concerning this letter, please contact Case Manager ██████████ at ██████████ or by telephone at ██████████.

Sincerely,

Frank R. Hughes
Acting Regional Director

¹ See e.g., Section 39 of the Federal Deposit Insurance Act and Part 364 of the FDIC Rules and Regulations.

DOCUMENT 3



Federal Deposit Insurance Corporation

Division of Risk Management Supervision
350 5th Avenue, New York, NY 10018

New York Regional Office

March 25, 2022

Board of Directors

[REDACTED]

Subject: Activity Related to [REDACTED]

Dear Members of the Board:

On [REDACTED], the [REDACTED], a [REDACTED] association of [REDACTED] institutions, was launched to further the adoption and interoperability of a [REDACTED] to facilitate the transfer of value on a blockchain. [REDACTED] is one of the [REDACTED] members of the [REDACTED]

[REDACTED] General Counsel and Corporate Secretary [REDACTED] along with leadership of the other [REDACTED] members, participated in a February 22, 2022 conference call to discuss the [REDACTED] and its proposal with representatives from the FDIC, the Board of Governors of the Federal Reserve System, and the Office of Comptroller of the Currency (collectively, Federal regulators). The Federal regulators understand, as a result of this conference call, that the [REDACTED] is currently drafting operating rules to govern transactions on the [REDACTED] blockchain network.

The FDIC has a number of questions based on the information provided to date. We expect you to satisfactorily address them (in advance of implementation) to ensure the bank is operating in a safe and sound manner.¹ To assist the FDIC and the other Federal regulators in the [REDACTED] review process, we will be sending, under separate cover, (i) the questions regarding the [REDACTED] that have not yet been satisfactorily addressed and (ii) additional questions and document requests that will need to be addressed.

Written correspondence should be addressed to Jessica A. Kaemingk, Acting Regional Director, FDIC, New York Regional Office, and sent as a PDF document through the FDIC's Secure Email portal (<https://secureemail.fdic.gov/>) using the following email address: NYMailRoom@fdic.gov. Information about how to use secure email and FAQs about the service can be found at <https://www.fdic.gov/secureemail/>.

¹ See e.g., Section 39 of the Federal Deposit Insurance Act and Part 364 of the FDIC Rules and Regulations.

[REDACTED]
Board of Directors

Page 2 of 2

If you have any questions, please contact Assistant Regional Director Steven P. Slovinski
at [REDACTED].

Sincerely,
Jessica A. Kaemingk
Acting Regional Director

CC: [REDACTED]
Federal Reserve Bank of New York

DOCUMENT 4



Federal Deposit Insurance Corporation

Division of Risk Management Supervision
350 5th Avenue, New York, NY 10018

New York Regional Office

March 25, 2022

Board of Directors

[REDACTED]

Subject: Activity Related to [REDACTED] Bank Digital Deposit

Dear Board Members:

On October 12, 2021, [REDACTED] Bank met with the FDIC and notified the FDIC of a new planned product, the [REDACTED] Bank Digital Deposit ([REDACTED]) (f/k/a [REDACTED] Bank Digital Dollar).

President and Chief Executive Officer [REDACTED], along with other bank management, participated in a conference call to discuss [REDACTED] and its proposed launch with representatives from the FDIC and the [REDACTED] [REDACTED] on October 12, 2021, with a follow-up call on November 15, 2021. The regulators understand, as a result of these discussions, that [REDACTED] represents an enhancement to the existing [REDACTED] technology. The [REDACTED] token design will also only enable transactions between qualifying [REDACTED] Bank commercial clients. [REDACTED], however, will operate on the [REDACTED] [REDACTED] a decentralized public Blockchain, rather than on the [REDACTED], a private, permissioned Blockchain.

The FDIC has a number of questions based on the information provided to date. We expect you to satisfactorily address them (in advance of implementation) to ensure the bank will be engaging in this new activity in a safe and sound manner.¹ To assist in the [REDACTED] review process, we will be sending, under separate cover, (i) the questions regarding [REDACTED] that have not yet been satisfactorily addressed; and (ii) additional questions and document requests that will need to be addressed prior to launching [REDACTED].

Written correspondence should be addressed to Jessica A. Kaemingk, Acting Regional Director, FDIC, New York Regional Office, and sent as a PDF document through the FDIC's Secure Email portal (<https://secureemail.fdic.gov/>) using the following email address: NYMailRoom@fdic.gov. Information about how to use secure email and FAQs about the service can be found at <https://www.fdic.gov/secureemail/>.

¹ See e.g., Section 39 of the Federal Deposit Insurance Act and Part 364 of the FDIC Rules and Regulations.

[REDACTED]
Board of Directors

Page 2 of 2

If you have any questions, please contact Assistant Regional Director Steven P. Slovinski
at [REDACTED]

Sincerely,
Jessica A. Kaemingk
Acting Regional Director

CC: [REDACTED]

DOCUMENT 5



Federal Deposit Insurance Corporation
Division of Risk Management Supervision
300 South Riverside Plaza, Suite 1700, Chicago, IL 60606

Chicago Regional Office
Phone (312) 382-7500
Fax (312) 382-6901

April 5, 2022

Board of Directors

[REDACTED]

Subject: Activity Related to [REDACTED] Bitcoin Service

Dear Board Members:

On December 17, 2021, the Federal Deposit Insurance Corporation (FDIC), the [REDACTED], and [REDACTED] management team participated in a virtual meeting to discuss crypto-asset finder services that [REDACTED] is offering to certain customers. Approximately 2,800 [REDACTED] customers can purchase, sell, and store Bitcoin using an application from [REDACTED] through the bank's online and mobile banking platform provided by [REDACTED]. Subsequent to that meeting, the FDIC and [REDACTED] requested and received additional documentation regarding the bank's agreements, risk assessment, and due diligence related to this new service.

The FDIC has a number of questions based on the information provided to date. Those include questions with respect to the permissibility of this activity, including what legal analysis the bank performed related to permissibility and to assess compliance with Part 362 of the FDIC Rules and Regulations. Those also include questions with respect to safety and soundness¹ related to this activity and consumer protection issues. The FDIC plans to perform a detailed review of this activity and will seek further information with respect to those questions at the upcoming April 25, 2022 joint examination. Until that review is completed, [REDACTED] should not expand the service to additional customers.

If you have any questions, please contact Deputy Regional Director Christopher J. Newbury at [REDACTED].

Sincerely,

GREGORY Digitally signed by
BOTTONE GREGORY BOTTONE
Date: 2022.04.05
12:03:16 -04'00'

Gregory P. Bottone
Regional Director

cc: [REDACTED]

¹ See e.g., Section 39 of the Federal Deposit Insurance Act and Part 364 of the FDIC Rules and Regulations.

DOCUMENT 6



Dallas Regional Office
600 North Pearl Street, Suite 700
Dallas, Texas 75201
(214) 754-0098 FAX (972) 761-2082

April 15, 2022

The Board of Directors

[REDACTED]
[REDACTED]
[REDACTED]

Subject: Proposed New FinTech Product [REDACTED]

Dear Members of the Board:

We received President and Chief Operating Officer [REDACTED] submission on February 23, 2022, that provided high-level information related to the subject [REDACTED] product. The proposed product will apparently be interfaced with the bank's online and mobile banking platforms and will offer bank customers access to Bitcoin and Ethereum through the bank's mobile app. However, at this time the FDIC has not yet determined what, if any, regulatory filings will be necessary for a bank to engage in this type of activity. As a result, we respectfully ask that you pause all crypto asset-related activity. The FDIC will notify all FDIC-supervised banks at a later date when a determination has been made on the supervisory expectations for engaging in crypto asset-related activity, including the need for any regulatory filings. Refer to the Financial Institution Letter issued on April 7, 2022, FIL-16-2022-Notification of Engaging in Crypto-Related Activities, for additional information.

Please direct questions on this matter to Case Manager [REDACTED] at [REDACTED] or [REDACTED]. As a reminder, written correspondence should be addressed to Kristie K. Elmquist, Regional Director, FDIC, Dallas Regional Office, and sent as a PDF document through the FDIC's Secure Email portal (<https://securemail.fdic.gov/>) using the following e-mail address: DALMailRoom@fdic.gov. Information about how to use secure email and FAQs about the service can be found at <https://www.fdic.gov/secureemail/>. If you prefer to send correspondence via mail, please use the Dallas Regional Office address noted in the letterhead. If there are any questions about the Secure Email process, please contact Case Manager [REDACTED].

Sincerely,

Signed by Joseph A. Meade

Joseph A. Meade
Assistant Regional Director

cc: Federal Reserve Bank of Kansas City

[REDACTED]

DOCUMENT 7



Federal Deposit Insurance Corporation

Division of Risk Management Supervision
350 5th Avenue, New York, NY 10018

New York Regional Office

April 22, 2022

Board of Directors

[REDACTED]

Subject: Activity Related to [REDACTED]

Dear Members of the Board:

On [REDACTED], the [REDACTED] a [REDACTED] association of [REDACTED] institutions, was launched to further the adoption and interoperability of a [REDACTED] to facilitate the transfer of value on a blockchain. [REDACTED] Bank is currently a member of the [REDACTED]. We appreciate the transparency of [REDACTED] management team over the past several months in keeping us informed as the bank has conducted due diligence and explored its entry into the digital asset space. This letter serves as a follow-up to what was discussed in regards to [REDACTED] activity during the March 25, 2022 call between the [REDACTED] management team and FDIC New York Regional Office staff.

Several key [REDACTED] members participated in a February 22, 2022 conference call to discuss the [REDACTED] and its proposal with representatives from the FDIC, the Board of Governors of the Federal Reserve System, and the Office of Comptroller of the Currency (collectively, Federal regulators). The Federal regulators understand, as a result of this conference call, that the [REDACTED] is currently drafting operating rules to govern transactions on the [REDACTED] blockchain network.

The FDIC has a number of questions based on the information provided to date. We expect the [REDACTED] to address those (in advance of implementation) to ensure member banks are operating in a safe and sound manner.¹ To assist the FDIC and the other Federal regulators in the [REDACTED] review process, we will be sending, under separate cover, (i) the questions regarding the [REDACTED] that have not yet been satisfactorily addressed and (ii) additional questions and document requests that will need to be addressed. In addition to this outreach, we may reach out directly to [REDACTED] with questions to gain an understanding of how the bank will ensure continued safe and sound operation as this activity is implemented.

¹ See e.g., Section 39 of the Federal Deposit Insurance Act and Part 364 of the FDIC Rules and Regulations.

[REDACTED]
Board of Directors

Page 2 of 2

Written correspondence should be addressed to Jessica A. Kaemingk, Acting Regional Director, FDIC, New York Regional Office, and sent as a PDF document through the FDIC's Secure Email portal (<https://secureemail.fdic.gov/>) using the following email address: NYMailRoom@fdic.gov. Information about how to use secure email and FAQs about the service can be found at <https://www.fdic.gov/secureemail/>.

If you have any questions, please contact Assistant Regional Director Ashley M. Amicangioli at [REDACTED]

Sincerely,
Jessica A. Kaemingk
Acting Regional Director

CC: [REDACTED]
Federal Reserve Bank of New York

DOCUMENT 8



Dallas Regional Office
600 North Pearl Street, Suite 700
Dallas, Texas 75201
(214) 754-0098 FAX (972) 761-2082

April 25, 2022

Board of Directors

[REDACTED]

Via Secure Email

Members of the Board:

On February 22, 2022, the FDIC, OCC, and Federal Reserve Board met with [REDACTED] and banks that were members of [REDACTED] at the time, including [REDACTED] who is a [REDACTED] member of the [REDACTED], General Counsel at [REDACTED], participated in the meeting to discuss the [REDACTED] and its proposed launch. At that meeting, it was evident that the [REDACTED] had yet to finalize the use cases or functionality of the product and the Operating Rules by which the [REDACTED] and its members would be governed. The discussion indicated phases or versions of the product, with future solutions, and subsequently, FDIC has received revised information outlining three models under consideration for the [REDACTED] program.

In our letter to you dated March 11, 2022, the FDIC stated it has a number of questions based on the discussion and information provided to date. The initial questions are attached and we request responses by June 9, 2022. As noted in our prior letter, we expect you to satisfactorily address these and any subsequent questions (in advance of implementation) to ensure the bank is operating in a safe and sound manner.¹ This is consistent with FIL-16-2022 which requests that institutions provide information necessary to allow the agency to assess the safety and soundness, consumer protection, and financial stability implications of such activities.

Written correspondence should be addressed to Kristie K. Elmquist, Regional Director, FDIC, Dallas Regional Office, and sent as a PDF document through the FDIC's Secure Email portal (<https://securemail.fdic.gov/>) using the following e-mail address: DALMailRoom@fdic.gov. Information about how to use secure email and FAQs about the service can be found at <https://www.fdic.gov/secureemail/>.

Sincerely,

Kristie Elmquist
Regional Director

Attachment

¹ See e.g., Section 39 of the Federal Deposit Insurance Act and Part 364 of the FDIC Rules and Regulations

1. **Governance and Structure of [REDACTED].**

- a. Describe the activities conducted by [REDACTED]; the assets held by [REDACTED]; the services [REDACTED] provides to [REDACTED] banks; and the relationship between [REDACTED] and [REDACTED] banks.
- b. Describe the governance in place for [REDACTED] private protocol within the [REDACTED] blockchain, including the processes for decision-making, key participants, and key personnel. In your response, indicate the extent to which (i) [REDACTED] will participate in or exercise control over governance of [REDACTED] private protocol within the [REDACTED] blockchain; and (ii) participants on the private protocol could make decisions that would have binding effect with respect to [REDACTED], including over [REDACTED] objections.
- c. Describe what role, if any, [REDACTED] and [REDACTED] will play in the governance of the [REDACTED].
- d. Describe what role, if any, non-member, participating banks will play in the governance of [REDACTED] private protocol, including whether such banks will be restricted in conducting any activities related to the public [REDACTED] blockchain.
- e. Provide the terms of the [REDACTED] smart contract, the rules of the [REDACTED] blockchain and the private protocol, and any documents that describe the terms of such smart contract. Identify the party responsible for creating and coding such terms into the smart contract.
- f. Explain in detail the consensus mechanism for the [REDACTED] blockchain. Identify all persons that control 5 percent or more of the staking assets for the blockchain and provide the percentage controlled.
- g. Explain any dispute resolution processes contemplated with respect to [REDACTED] members.
- h. Provide a list of the fees [REDACTED] has already paid to [REDACTED], and estimated expenses moving forward. In your response, please clarify what the fees are for and whether there are expectations of periodic payments to [REDACTED].
- i. Discuss the permissibility of [REDACTED] membership in [REDACTED] under section 24 of the Federal Deposit Insurance Act, 12 U.S.C. § 1831a, and part 362 of the FDIC Rules and Regulations, 12 C.F.R. part 362.
- j. Clarify whether [REDACTED] operates a node or is otherwise involved in validating transactions on the [REDACTED] blockchain or the private protocol. Identify other entities that operate as a node or otherwise validate transactions. Explain how such nodes are assigned; the role they serve; the governance process for nodes; and whether the nodes for the [REDACTED] private protocol are the same or different than [REDACTED] nodes.
- k. Describe what involvement, if any, [REDACTED] may consider in [REDACTED] related activities of the [REDACTED] blockchain.
- l. Identify the steps that [REDACTED] would need to take if it chooses to exit the [REDACTED].
- m. Describe key third-party relationships that the [REDACTED] and the [REDACTED] will enter into with respect to [REDACTED] activities. In your response, please address any contemplated relationships with [REDACTED] and their affiliates.
- n. If the applications for [REDACTED] include business-to-business payments, merchant payments, and peer-to-peer payments, explain whether different governance protocols would be adopted to ensure privacy, confidentiality and/or data security for the different types of customers and their data.
- o. Explain any restrictions in place regarding the use of data related to [REDACTED] transactions. In your response identify the parties with access to such data and the type(s) of data they

can access and any controls monitoring the use of such data. Explain the rights and responsibilities with respect to privacy and/or data security violations.

- p. Explain the extent to which [REDACTED] transactions will make use of an off-chain contract execution environment.
- q. Provide a copy of the Operating Rules.
- r. Describe any insurance that is contemplated to cover loss or malfeasance at the [REDACTED] or [REDACTED] bank-level.
- s. Explain whether [REDACTED] banks or participating banks are required to sign exclusivity agreements with the [REDACTED]. In your response, clarify whether [REDACTED] banks or participating banks are allowed to join other similar [REDACTED]

2. Classifications.

- a. Explain the difference, if any, between the [REDACTED] use of the terms "[REDACTED]" and "[REDACTED]" (Note these questions use the term "[REDACTED]" but should be read broadly if there is a difference in these terms.)
- b. The website [REDACTED] (last visited on 3/31/2022) uses the terms "[REDACTED]" and "[REDACTED]". Clarify [REDACTED] understanding of [REDACTED]
- c. Explain whether the [REDACTED] digital markers identify the issuing bank and how, if at all, this distinction is apparent to banks and/or customers.
- d. Explain the basis for [REDACTED] determination that its participation in the [REDACTED] [REDACTED], including all the activities that it would conduct as part of the [REDACTED] is permissible under applicable law.

3. Accounting.

- a. Explain how funds exchanged for [REDACTED] digital markers are reflected on the balance sheet of [REDACTED]
- b. Explain whether and how the [REDACTED] digital markers themselves are or will be reflected on the balance sheet of [REDACTED]
- c. Explain whether reserves will be held in connection with the [REDACTED] digital marker liabilities and, if so, whether such reserves be held as cash or in the form of specific assets. If reserves are held, explain whether they serve as collateral for the [REDACTED] digital marker liabilities.
- d. Provide example general ledger entries for [REDACTED] minting; transfer of [REDACTED] to a customer of another [REDACTED] bank; burning of [REDACTED] and settlement of due-to/due-from balances among [REDACTED] banks. Please provide a chart depicting the flow of funds.

4. Exposure to Other Members of the [REDACTED].

- a. Explain how [REDACTED] mitigates the risk of intraday (or over-the-weekend) exposures to other [REDACTED] banks. In your response, describe any controls in place to protect [REDACTED] from the failure of a fellow [REDACTED] bank during the term of these exposures.
- b. Explain the liability, if any, [REDACTED] would have to holders of [REDACTED] issued by another [REDACTED] bank upon such bank's failure.

5. Risk Management and Controls.

- a. Describe the role of the board in reviewing and approving bank participation in the [REDACTED] and [REDACTED] activities.
 - i. Explain the process by which [REDACTED] board and/or management assessed [REDACTED] authority to participate in the [REDACTED]?
 - ii. Identify the legal risks (including permissibility, if applicable) [REDACTED] board considered when deciding whether to participate in the [REDACTED]. Explain how the [REDACTED] plans to mitigate and manage those risks.
 - iii. If participation in the [REDACTED] was approved by the board, explain the basis upon which the board approved [REDACTED] participation while key questions related to liability, membership, operating rules, and use cases have not been finalized.
 - iv. If participation in the [REDACTED] was not approved by the board, explain management's authority to enter into the activity without board approval.
- b. Explain the type of risk assessment and due diligence that was performed and identify key personnel involved in such activities.
- c. Explain whether management identified relevant expertise needed to engage in this activity.
- d. Explain whether the [REDACTED] established any dollar volume-based limitations on customer activity or bank level activity (on a daily basis) (for example, to monitor total exposure/volume).
- e. Explain whether the bank will upgrade or change any systems or procedures to allow for this activity.
- f. Describe the risk management systems, processes, and controls in place or in development with respect to [REDACTED] activities, including the minting and burning of [REDACTED], maintenance of [REDACTED] wallets, and participation in the [REDACTED] blockchain.
- g. Describe the risk management systems, processes, and controls that [REDACTED] and the [REDACTED] have put in place to monitor and mitigate potential risks posed by the public [REDACTED] blockchain, including those related to blockchain governance disputes, software defects, and changes in protocol rules.
- h. Explain how [REDACTED] public, permissionless nature impacts [REDACTED] ability to mitigate risks related to security and privacy.
- i. Explain how [REDACTED] will mitigate operational risk where a step in the transfer process does not occur as expected.
- j. Provide any continuity plans if the [REDACTED] blockchain fails, including operational errors or delays in processing and system outages.
- k. Describe [REDACTED] efforts to conduct due diligence and assess the risks of engaging in the [REDACTED] smart contract.
- l. Explain how [REDACTED] will ensure that the amount of funds in the omnibus deposit account matches, at a minimum, at all times the aggregate amount of [REDACTED] in its customers' wallets.
- m. Describe any testing [REDACTED] is conducting or will conduct in relation to the [REDACTED] blockchain, [REDACTED] smart contract, or other aspects of its participation in the [REDACTED].
- n. Describe and provide documentation of vulnerability analysis that has been performed related to the smart contracts.

6. **Settlement:** Explain when the final settlement of a transaction facilitated by █████ occurs, where it is recorded, and whether there are any dependencies on the public █████ blockchain for settlement finality.
 - a. Provide a detailed account of what “█████” is and for what it will be used. In your response, include whether it has a set price or whether its price can fluctuate.
 - b. Explain whether █████ will be paying “█████” fees directly to update the █████ blockchain ledger and, if so, to whom such fees are paid.
 - c. Explain whether █████ plans to hold “█████” and, if so, (i) how it will be reflected on █████ balance sheet and (ii) how much the █████ plans to hold. If its price can fluctuate, explain how █████ intends to account for variations in the price of “█████.”
 - d. Provide a description of the accounting methods and treatment used for █████ held by █████ (including initial recording and any subsequent entries).

7. **Use Cases**
 - a. Provide a detailed description of planned and potential use cases for █████
 - b. Explain how the █████ differs from other bank-offered peer-to-peer payments platforms (e.g. █████). Explain if the █████ interacts with any such platforms.
 - c. Explain whether and how the █████ is developing an alias directory (e.g. email addresses). If so, explain (i) whether such directory will be housed by a central party, or such data will be stored in a decentralized manner; how any personal identifiable information (PII) stored in the alias directory will be protected.
 - d. Explain how customers effectuate peer-to-peer payments (e.g., in banks’ own apps or via a third-party app).
 - e. Identify and describe safeguards that will be put in place to mitigate the risk that customers send funds to an unintended recipient.
 - f. Provide screen shots to show the customer’s user experience.

8. **Consumer Protection.**
 - a. Identify the fees and other charges that will be imposed on █████ customers that elect to use █████ to conduct transactions.
 - b. Describe the anticipated process for managing complaints from █████ customers related to █████.
 - c. Explain any steps █████ will take to ensure consumers understand any difference in protections between █████ and traditional banking products.
 - d. Describe network rules, systems, and practices that will be put in place to protect consumers. For example, explain the rights consumers will have to dispute errors, payments mistakenly sent to the wrong party, or payments related to fraud. Describe how █████ and the █████ will ensure such disputes are resolved in a timely basis and in accordance with network rules and applicable laws and regulations.
 - e. Explain whether █████ or any other entity will indemnify customers for breaches to the wallets.
 - f. Explain whether consumers are required to enter into an agreement with █████ (or another entity) to maintain a wallet.
 - g. Describe any representations that █████ is making or plans to make regarding the applicability of FDIC deposit insurance.

- h. Describe any representations that [REDACTED] is making or plans to make regarding the stability of [REDACTED], including regarding reserves.
- i. Explain whether responsibility for approval of advertising and marketing materials rests with individual [REDACTED] banks or the [REDACTED] as a whole, or if there is some other arrangement.
- j. Identify the consumer data that will be shared with the [REDACTED] and its participants, as well as any controls in place to protect PII and limit sharing. In your response, indicate whether any PII will be stored on a distributed ledger and describe any disclosures regarding data sharing that [REDACTED] intends to provide.

DOCUMENT 9



Dallas Regional Office
600 North Pearl Street, Suite 700
Dallas, Texas 75201
(214) 754-0098 FAX (972) 761-2082

SENT VIA SECURED ELECTRONIC MAIL

May 4, 2022

The Board of Directors
[REDACTED]
[REDACTED]
[REDACTED]

Subject: Proposed Crypto Asset Capability

Dear Members of the Board:

This office received Senior Vice President and Compliance Officer [REDACTED] e-mail sent on April 19, 2022, that provided high-level information about the bank's intent to provide a crypto asset capability involving [REDACTED]. The relationship with [REDACTED] would provide bank customers an avenue to engage in crypto asset transactions, specifically the purchase and sale of Bitcoin, using the bank's mobile banking application. We thank you for your timely notification as requested by Financial Institution Letter (FIL-16-2022) dated April 7, 2022.

At this time the FDIC has not yet determined what, if any, regulatory filings will be necessary for a bank to engage in this type of activity. As a result, we respectfully ask that you not implement this product, while we consider this crypto asset-related activity.

As we review your proposed activity, we will continue to correspond with your institution regarding additional information requests to aid us in our assessment of the activity. In the meantime, you may direct questions on this matter to Case Manager [REDACTED] at [REDACTED]. Written correspondence should be addressed to Kristie K. Elmquist, Regional Director, FDIC, Dallas Regional Office, and sent as a PDF document through the FDIC's Secure Email portal (<https://securemail.fdic.gov/>) using the following e-mail address: DALMailRoom@fdic.gov. Information about how to use secure email and FAQs about the service can be found at <https://www.fdic.gov/secureemail/>.

Sincerely,

/s/ J. Mark Love

J. Mark Love
Assistant Regional Director

cc: Federal Reserve Bank of Dallas
[REDACTED]

DOCUMENT 10



Dallas Regional Office
600 North Pearl Street, Suite 700
Dallas, Texas 75201
(214) 754-0098 FAX (972) 761-2082

May 13, 2022

Board of Directors

[REDACTED]
[REDACTED]
[REDACTED]

Subject: Third-Party Bitcoin Facilitation Activity

Dear Members of the Board:

By letter dated December 30, 2021, [REDACTED] President of [REDACTED] (the Bank), advised the FDIC and the [REDACTED] of the Bank's intent to offer Bank customers the ability to buy, hold, and sell bitcoin through the Bank's online banking website and mobile application in conjunction with [REDACTED] (bitcoin trading platform) and [REDACTED] (technology provider). The relationship allows Bank customers to purchase and sell bitcoin through [REDACTED], with funds flowing through the customer's account at the Bank.

By letter dated January 19, 2022, additional information was received from President [REDACTED] regarding this service, and a brief conference call with President [REDACTED], the [REDACTED], and a representative from the FDIC was held on January 26, 2022. By letter dated February 9, 2022, the FDIC and [REDACTED] outlined certain information included in the November 23, 2021 Joint Statement on Crypto-Asset Policy Sprint Initiative and Next Steps (Joint Statement).

On April 7, 2022, the FDIC issued a Financial Institution Letter, FIL-16-2022, explaining a notification and supervisory feedback process concerning a bank's current or planned crypto-asset related activity. That FIL is available here: <https://www.fdic.gov/news/financial-institution-letters/2022/fil22016.html>.

On April 14, 2022, President [REDACTED] verbally notified Case Manager [REDACTED] that the Bank had launched the bitcoin facilitation activity on [REDACTED]. To date, approximately 36 number of customers have executed transactions, with most transactions being bitcoin purchases.

The FDIC continues to review the bitcoin facilitation activity and various questions remain outstanding, including with respect to the legal permissibility of this activity, the potential applicability of part 362 of the FDIC Rules and Regulations, and safety and soundness and consumer protection principles. Consistent with the procedures outlined in FIL-16-2022, the FDIC will make future information requests to assist us in reviewing the activity and providing supervisory feedback to the Bank. Accordingly, until we complete our review, we request that the Bank refrain from expanding this service to additional customers.

[REDACTED]
Bank Acting as a Finder for Bitcoin Service

Page 2

If you have any questions, please contact Assistant Regional Director Cindy Scott at [REDACTED]. Written correspondence should be addressed to my attention at the Dallas Regional Office, and sent as a PDF document through the FDIC's Secure Email portal (<https://securemail.fdic.gov/>) using the following e-mail address: DALMailRoom@fdic.gov. Information about how to use secure email and FAQs about the service can be found at <https://www.fdic.gov/secureemail/>.

Sincerely,

Kristie K. Elmquist
Regional Director

cc: [REDACTED]

DOCUMENT 11



Federal Deposit Insurance Corporation

Division of Risk Management Supervision and Division of Depositor and Consumer Protection
350 5th Avenue, New York, NY 10018

New York Regional Office

June 22, 2022

Board of Directors



Subject: [REDACTED] Notice to Engage in Digital Asset Activities under FIL-16-2022

Dear Members of the Board:

We received the subject correspondence dated May 20, 2022 from [REDACTED] (Bank), in response to Financial Institution Letter 16-2022, notifying the FDIC of the Bank's intent to engage in activities involving digital assets. New York Regional Office staff has met numerous times with Bank management over the past several months regarding these proposed activities. We appreciate management's efforts to keep us informed as the Bank has conducted due diligence and explored its entry into the digital asset space.

The FDIC has a number of questions regarding the activities based on the information provided to date. The FDIC plans to conduct a targeted review of the Bank's planned digital asset activities in July 2022 to gain an understanding of how the Bank will ensure continued safe and sound operations and consumer protections, should these activities be implemented. A document request list related to this targeted review was provided under separate cover. The Bank should address these questions, in advance of implementation of the proposed activities, in order for the FDIC to assess the safety and soundness of the proposed activities¹ and compliance with laws and regulations.

If you have any questions, please contact Assistant Regional Director Ashley M. Amicangioli at [REDACTED] or Assistant Regional Director Kara L. Ritchie at [REDACTED].

Sincerely,
Jessica A. Kaemingk
Acting Regional Director

CC: [REDACTED]

¹ See e.g., Section 39 of the Federal Deposit Insurance Act and Part 364 of the FDIC Rules and Regulations.

DOCUMENT 12



Federal Deposit Insurance Corporation
Division of Risk Management Supervision
Division of Depositor and Consumer Protection
300 South Riverside Plaza, Suite 1700, Chicago, IL 60606

Chicago Regional Office
Phone (312) 382-7500
Fax (312) 382-6901

June 27, 2022

Board of Directors

[REDACTED]

Subject: Third-Party Bitcoin Facilitation Activity

Dear Members of the Board:

By letter dated May 27, 2022, [REDACTED] Vice President/Compliance Officer of [REDACTED] (the Bank), advised the FDIC, in response to Financial Institution Letter 16-2022 (FIL-16-2022),¹ and the [REDACTED] of the Bank's intent to offer Bank customers the ability to buy, hold, and sell bitcoin through the Bank's online banking website and mobile application in conjunction with [REDACTED] and certain of its subsidiaries (collectively, [REDACTED] and [REDACTED] (technology provider). The relationship allows Bank customers to purchase and sell bitcoin through [REDACTED], with funds flowing through the customer's account at the Bank, as facilitated by the technology provider.

On June 14, 2022, Vice President/Compliance Officer [REDACTED] verbally informed Acting Case Manager [REDACTED] that the Bank would begin marketing the bitcoin facilitation activity to Bank customers on [REDACTED]. To date, the Bank has enrolled 20 customers, all employees of the bank, with transactions totaling approximately \$1,400.

The FDIC continues to review the bitcoin facilitation activity and various questions remain outstanding. Consistent with the procedures outlined in FIL-16-2022, the FDIC will request additional information to assist us in reviewing the activity and providing supervisory feedback to the Bank. Accordingly, until we complete our review, we request that the Bank refrain from expanding this service.

If you have any questions, please contact Acting Case Manager [REDACTED] at [REDACTED] or Review Examiner [REDACTED] at [REDACTED]. Written correspondence should be addressed to my attention at the Chicago Regional Office, and sent as a PDF document through

¹ On April 7, 2022, the FDIC issued FIL-16-2022, explaining a notification and supervisory feedback process concerning a bank's current or planned crypto-asset related activity. FIL-16-2022 is available here: <https://www.fdic.gov/news/financial-institution-letters/2022/fil22016.html>.

the FDIC's Secure Email portal (securemail.fdic.gov) using the following e-mail address:
CHIMailRoom@FDIC.gov.

Sincerely,

Gregory P. Bottone
Regional Director

cc:

[REDACTED]

DOCUMENT 13



Federal Deposit Insurance Corporation

350 Fifth Avenue, Suite 1200, New York, NY 10118

New York Regional Office

June 30, 2022

Board of Directors

[Redacted]

Subject: Third-Party Bitcoin Facilitation Activity

Dear Members of the Board:

In a December 13, 2021 meeting, [Redacted] (Bank) officers¹ advised the FDIC of the Bank's intent to offer customers the ability to buy, hold, and sell bitcoin through the online banking website and mobile application in conjunction with [Redacted] and [Redacted]. The relationship allows Bank customers to purchase and sell bitcoin through [Redacted], with funds flowing through the customer's account at the Bank.

In a letter dated May 19, 2022, EVP Chief Digital Payments Officer [Redacted] provided an overview of the program and due diligence activities in response to the FDIC Financial Institution Letter, FIL-16-2022, dated April 7, 2022 (FIL-16-2022). FIL-16-2022 explains the notification and supervisory feedback process concerning current or planned crypto-asset-related activity. On June 1, 2022, the Bank, the FDIC, and [Redacted] discussed the program again. The program was rolled out to a select group of employees or [Redacted].

The FDIC continues to review the bitcoin activity and various questions remain outstanding. Consistent with the procedures outlined in FIL-16-2022, the FDIC will request additional information to assist us in reviewing the activity and providing supervisory feedback to the Bank. Accordingly, until we complete our review, we request that the bank refrain from expanding this service.

If you have any questions, please contact Assistant Regional Director Catherine H. Goni at [Redacted]. Written correspondence should be addressed to my attention at the New York Regional Office, and sent as a PDF document through the FDIC's Secure Email portal (securemail.fdic.gov) using the following e-mail address: NYMailroom@fdic.gov. Information about how to use secure email and FAQs about the service can be found at <https://www.fdic.gov/secureemail/>.

Sincerely,
Jessica A. Kaemingk
Acting Regional Director

cc: [Redacted]

¹ Chief Risk Officer [Redacted], Chief Information Officer [Redacted], Executive Vice President Chief Digital Payments Officer [Redacted], and Vice President Compliance Officer [Redacted]

DOCUMENT 14



Division of Risk Management Supervision
Division of Depositor and Consumer Protection

Dallas Regional Office
600 North Pearl Street, Suite 700
Dallas, Texas 75201
(214) 754-0098 FAX (972) 761-2082

July 14, 2022

Board of Directors
[REDACTED]
[REDACTED]
[REDACTED]

Subject: Third-Party Bitcoin Activity

Dear Members of the Board:

By letter dated July 8, 2022, [REDACTED] (Bank) provided notification pursuant to Financial Institution Letter-16-2022, *Notification of Engaging in Crypto-Related Activities* (FIL-16-2022), of its program offering customers the ability to buy, hold, and sell bitcoin through the Bank's online banking website in conjunction with [REDACTED]. This relationship allows Bank customers to purchase and sell bitcoin through [REDACTED], with funds flowing through the customer's account at the Bank.

On June 21, 2022, the FDIC held a videoconference meeting, with members of the Bank's executive team to discuss the bitcoin activity. Chief Executive Officer (CEO) [REDACTED], President [REDACTED], General Counsel [REDACTED], and Compliance Officer (CO) [REDACTED] represented the Bank. Assistant Regional Director (ARD) J. Mark Love, ARD Cynthia Scott, ARD Akhtar Khan, and Case Manager [REDACTED] represented the FDIC.

During the meeting, GC [REDACTED] informed the FDIC that the program is live as of [REDACTED], the Bank does not directly engage in bitcoin activity on behalf of customers, and the activities are transacted on a platform provided by [REDACTED] that is integrated into the Bank's online banking website by a technology service provider. GC [REDACTED] committed to provide additional information about the activity, including screenshots of the customer-facing disclosures, a risk assessment of the activity, and the vendor management due diligence of [REDACTED]. In addition, GC [REDACTED] committed to provide, by July 8, 2022, user data, including the number of current users, the number of active users, the number of transactions, and the average and total dollar amount of transactions related to the activity. Subsequent to this meeting, the Bank advised the FDIC that 70 Bank customers have established accounts, 30 of which have conducted at least one transaction. The Bank stated that the total transaction volume since inception is \$35,906, with an average balance held in each account of \$2,933.

The FDIC continues to review crypto-related activities and various questions remain outstanding. Consistent with the procedures outlined in FIL-16-2022, the FDIC may request additional information to assist us in reviewing the activity and providing supervisory feedback to the Bank. Accordingly, until we complete our review, we request that the Bank refrain from expanding this service.

If you have any questions, please contact ARD Love at [REDACTED]. Written correspondence should be addressed to Kristie K. Elmquist, Regional Director, FDIC, Dallas Regional Office, and sent as a PDF document through the FDIC's Secure Email portal (<https://securemail.fdic.gov/>) using the following e-mail address: DALMailRoom@fdic.gov. Information about how to use secure email and FAQs about the service can be found at <https://www.fdic.gov/securemail/>.

[REDACTED]
Third-Party Bitcoin Activity

Page 2

Sincerely,

/s/ Kristie K. Elmquist

Kristie K. Elmquist
Regional Director

cc: [REDACTED]

DOCUMENT 15



FDIC

Federal Deposit Insurance Corporation
25 Jessie Street at Ecker Square, Suite 2300
San Francisco, California 94105

Division of Risk Management Supervision
San Francisco Regional Office
(415) 546-0160

July 27, 2022

Board of Directors

[REDACTED]

Subject: Notification of Crypto-Related Activity

Dear Members of the Board:

By letter dated March 22, 2022, [REDACTED], SVP/CRO of [REDACTED], (the Bank) notified the FDIC and the [REDACTED] that the Bank will provide its customers the ability to buy, sell, and hold bitcoin through the Bank's online banking website in conjunction with [REDACTED] and [REDACTED]. The relationship will allow Bank customers to purchase, hold, and sell bitcoin through [REDACTED], with funds flowing through the customer's account at the Bank. [REDACTED] will maintain custody of the bitcoin accounts.

On April 7, 2022, the FDIC issued a Financial Institution Letter, FIL-16-2022, explaining a notification and supervisory feedback process concerning a bank's current or planned crypto-asset related activity. That FIL is available here: <https://www.fdic.gov/news/financial-institution-letters/2022/fil22016.html>.

By email dated May 4, 2022, SVP/CRO [REDACTED] provided the FDIC and [REDACTED] with due diligence documents related to the bitcoin activities as attachments to the email. These documents include the following:

[REDACTED]

On May 31, 2022, a joint FDIC and [REDACTED] Safety and Soundness examination began. On June 15, 2022, examiners and bank management held an MS Teams Meeting to present an additional request list related to the proposed crypto activities. During the meeting, a live demonstration of the Bank's test environment was held whereby a bank employee bought and sold bitcoin. Bank management noted that the ability to buy/sell/hold bitcoin is currently limited to a test environment, and only certain employees have access to the test environment.

The FDIC continues to review the bitcoin activities and various questions remain outstanding. Consistent with the procedures outlined in FIL-16-2022, the FDIC has requested information as part of the examination process and may request additional information to assist us in reviewing the activity and providing supervisory feedback to the Bank. Accordingly, until we complete our review, we request that the Bank refrain from expanding this service to its customers.

If you have any questions, please contact RMS Assistant Regional Director David Wong at [REDACTED] or DCP Assistant Regional Director Matthew Sheeren at [REDACTED]. Written correspondence should be addressed to my attention at the San Francisco Regional Office, and sent as a PDF document through the FDIC's Secure Email portal (<https://securemail.fdic.gov/>) using the following e-mail address: SEmailroom@FDIC.gov. Information about how to use secure email and FAQs about the service can be found at <https://www.fdic.gov/secureemail/>.

Sincerely,

Digitally signed by
KATHY MOE
Date: 2022.01.27
15:37:45 -0700

Kathy L. Moe
Regional Director

[REDACTED]

DOCUMENT 16



FDIC
Federal Deposit Insurance Corporation
25 Jessie Street at Ecker Square, Suite 2300
San Francisco, California 94105

Division of Risk Management Supervision
Division of Consumer Protection
San Francisco Regional Office
(415) 546-0160

Sent via secure email to [REDACTED]

July 28, 2022

Board of Directors
[REDACTED]

Subject: Notification of Engaging in Crypto-Related Activities

Dear Members of the Board:

On May 31, 2022, [REDACTED] Chief Financial Officer (CFO) [REDACTED] submitted [REDACTED] draft three-year business plan (Plan) pursuant to FDIC's Financial Institution Letter-16-2022, *Notification of Engaging in Crypto-Related Activities* (FIL-16-2022). We also held a brief discussion with President and Chief Executive Officer [REDACTED], [REDACTED] CFO [REDACTED] and the Digital Banking Division's Chief Operating Officer [REDACTED] on June 22, 2022. As discussed during the call, the Plan represents a significant and material change in the bank's business model as it seeks to develop and implement a proposed Digital Banking Platform (DBP) strategy.

While the FDIC continues to review the bank's Plan pursuant to FIL-16-2022, in order to assess the safety and soundness and consumer protection implications of such activities, additional information is needed and questions remain outstanding. We recognize that the Plan is early in its implementation stages, and that developing the risk management framework is an ongoing process; however, it is essential for management to solidify this framework prior to implementation to ensure planned activities and strategies are consistent with current laws, rules, and regulations, as well as safety and soundness and consumer protection principles. Examples of incomplete, but essential, elements that we request the opportunity to review, when available, include the following:

- Risk assessments for DBP activities,
- Due diligence for all vendors related to the Digital Banking Division, as well as the identification of vendors to assist in customer due diligence, custodial services, exchange services, funds movement, and any other services related to DPB,
- Policies and procedures and planned products and services surrounding the Digital Banking Division,
- Project plans and cost benefit analysis for DBP activities,
- Formal succession plan for the Digital Banking Division,

Board of Directors

██████████

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- Draft contracts and legal agreements between the bank and its affiliate entities, as well as key third parties,
- Legal analysis of the permissibility of the proposed new products and services under Part 362 of the FDIC's Rules and Regulations, including the permissibility of BTC/ETH as collateral and the applicability of 12 C.F.R. § 1.7 with respect to the Digital Assets Lending Program,
- Also with respect to the Digital Assets Lending Program:
 - Identification of loan types, policies, target loan mix, and anticipated direct and indirect loan relationships,
 - Legal analysis of: (1) how ██████████ would perfect its security interest in BTC/ETH collateral under the ██████████ Uniform Commercial Code (UCC), (2) the priority of ██████████ security interest in BTC/ETH collateral under the ██████████ UCC, (3) how ██████████ would foreclose on BTC/ETH under ██████████ law, and (4) the applicability of Regulation U (12 C.F.R. Part 221) to the proposed program.
- Banking services to be offered to fintech platforms and ecosystem participants,
- Plans to expand the bank's lending outside of its existing assessment area or market area as a result of the DBP strategy, if any, and expected impacts to the Community Reinvestment Act (CRA) performance,
- Any assessment of consumer protection risk considerations; for example, any potential consumer harm or consumer confusion associated with planned products and services offered by the Digital Banking Division,
- Analysis performed with respect to SEC Staff Accounting Bulletin No. 121 and proposed new products and services, and,
- Plans for ongoing monitoring and audit of the Digital Banking Platform.

As noted throughout the Plan and during our discussion, we understand that much of the development, acquisition, and pursuit of the various DBP strategies remain in process. As a result, we expect to remain in close correspondence with the bank in the coming weeks and months. Also, please note that FIL-16-2022 does not provide for the issuance of an FDIC non-objection, as requested in the Plan. Consistent with the procedures outlined in FIL-16-2022, the FDIC may make future information requests to assist us in reviewing the activities and providing any relevant supervisory feedback to the bank. Accordingly, until we complete our review, we request that the bank not proceed with planned activities, pending FDIC supervisory feedback, and that you continue to update us on developments in the bank's risk management framework and compliance management system.

If you have any questions related to Risk Management, please contact Assistant Regional Director Jaclyn Valderrama or Case Manager ██████████ at ██████████ and ██████████-██████████, respectively. For questions related to Consumer Protection, please contact Assistant Regional Director Matthew Sheeren or Review Examiner ██████████ at ██████████ and ██████████, respectively. Written correspondence should be addressed to my attention at the San Francisco Regional Office, and sent as a PDF document through the FDIC's Secure Email

Board of Directors
[REDACTED]

Page 3

portal (<https://securemail.fdic.gov/>) using the following e-mail address: SFMailRoom@fdic.gov. Information about how to use secure email and FAQs about the service can be found at <https://www.fdic.gov/secureemail/>.

Sincerely,

/s/ Kathy L. Moe

Kathy L. Moe
Regional Director

cc:

[REDACTED]
Federal Reserve Bank of San Francisco

DOCUMENT 17



Federal Deposit Insurance Corporation

1100 Walnut Street, Suite 2100, Kansas City, MO 64106

Division of Risk Management Supervision

August 9, 2022

Board of Directors

[REDACTED]

Subject: Third-Party Bitcoin Facilitation Activity

Dear Members of the Board:

By letter dated May 10, 2022, [REDACTED], President and CEO of [REDACTED] (Bank), advised the FDIC of the bank's intent to offer customers the ability to buy, sell, and hold bitcoin through the Bank's digital and mobile banking platform in conjunction with [REDACTED] [REDACTED] (bitcoin facilitation activity) in response to FIL-16-2022.¹ The relationship allows Bank customers to purchase and sell bitcoin with [REDACTED] as the trade execution provider and custodian and with all customer orders and transaction confirmations flowing through the Bank (bitcoin trading platform). The Bank also plans to offer a debit card with cash rewards that [REDACTED] pays in the form of bitcoin. Furthermore, [REDACTED] advised that credit was extended in November 2021 to [REDACTED], in the amount of \$[REDACTED]. The credit is secured by bitcoin and contains a 50 percent margin requirement, updated daily.

On March 11, 2022, the Bank discussed the bitcoin facilitation activity with the FDIC Division of Depositor and Consumer Protection – Kansas City Regional Office (RO). Follow-up discussions were held on April 12, 2022, and June 2, 2022. During the course of those discussions Bank management explained that beta testing of the bitcoin trading platform had commenced, with plans to expand that beta testing to non-customers. By letter dated June 3, 2022, additional information from the Bank was forwarded to the RO documenting the Bank's due diligence regarding the bitcoin facilitation activity and the loan presentation for the credit extended to [REDACTED] in November 2021.

The FDIC continues to review the bitcoin facilitation activity and various questions remain outstanding. Consistent with the procedures outlined in FIL-16-2022, the FDIC will make future information requests to assist us in reviewing the activity and providing supervisory feedback to the Bank. Accordingly, until we complete our review, we request that the Bank refrain from expanding this service to additional customers.

¹ On April 7, 2022, the FDIC issued a Financial Institution Letter, FIL-16-2022, explaining a notification and supervisory feedback process concerning a bank's current or planned crypto-asset related activity. That FIL is available here: <https://www.fdic.gov/news/financial-institution-letters/2022/fil22016.html>.

If you have any questions, please contact Assistant Regional Director Michele Sharp or Case Manager [REDACTED] at [REDACTED]. Written correspondence should be addressed to my attention at the Kansas City Regional Office, and sent as a PDF document through the FDIC's Secure Email portal (<https://securemail.fdic.gov/>) using the following e-mail address: KCMailRoom@fdic.gov. Information about how to use secure email and FAQs about the service can be found at <https://www.fdic.gov/secureemail/>.

Sincerely,
James D. LaPierre
Regional Director

cc: [REDACTED]

DOCUMENT 18



FEDERAL DEPOSIT INSURANCE CORPORATION
10 10th Street NE, Suite 800
Atlanta, Georgia 30309-3849

Atlanta Regional Office
Division of Risk Management Supervision
Division of Depositor and Consumer Protection
(678) 916-2200

August 26, 2022

Board of Directors

[REDACTED]
[REDACTED]
[REDACTED]

Subject: Notification of Crypto-Related Activity

Dear Members of the Board:

On August 5, 2022, the FDIC received [REDACTED] (Bank) notification, in response to Financial Institution Letter (FIL), [FIL-16-2022, Notification of Engaging in Crypto-Related Activities](#), of the Bank's intent to engage in crypto-asset related activity by offering customers bitcoin services through the Bank's banking platform in conjunction with [REDACTED]. FIL-16-2022 requested that all FDIC-supervised institutions that intend to engage in, or that are currently engaged in, any activities involving or related to crypto-assets (also referred to as "digital assets") promptly notify the appropriate FDIC Regional Director. The Bank's notification outlines that crypto-asset related activity includes offering customers the ability to buy, hold, and sell bitcoin ([REDACTED] Platform); a [REDACTED] Program; and a [REDACTED] Program.

The letter states that the Bank intends to start offering these services to customers on [REDACTED]. As stated in FIL-16-2022, the FDIC may request that institutions provide information necessary to allow the FDIC to assess the safety and soundness, consumer protection, and financial stability implications of such activities. To assess these risks, the FDIC is reviewing the notification and information provided, and is also assessing whether the proposed crypto-asset activities constitute a major deviation or material change in the business plan that the Bank must operate within during its [REDACTED] under the Deposit Insurance Order dated [REDACTED].

To assist in our review of the proposed activities, please provide the documentation referenced in the Appendix attached to this letter. We will review this documentation to assess the safety and soundness, consumer protection, and financial stability implications of such activities as it is received and in conjunction with the safety and soundness examination scheduled to commence on September 26, 2022. When we have completed our review, the FDIC will provide the institution with relevant supervisory feedback, as appropriate. Accordingly, until we complete our review, we request that the Bank refrain from providing this service to its customers.

Please submit the information requested in the Appendix to the FDIC as a PDF file to ATLMailRoom@fdic.gov using the secure message center at <https://securemail.fdic.gov>. The

information should be submitted to this office by September 9, 2022. If you foresee any issues with meeting this deadline, please contact the individuals identified below.

If you have any questions related to Risk Management, please contact Case Manager [REDACTED] at [REDACTED] or at [REDACTED]. If you have any questions related to Consumer Protection, please contact Senior Review Examiner [REDACTED] at [REDACTED] or at [REDACTED].

Sincerely,

Frank R. Hughes
Acting Regional Director

cc: [REDACTED]

Appendix
Crypto-Related Activity Request List

Please provide the following documentation in relation to the proposed crypto-related activities:

1. All contracts (including any draft contracts that the Bank is reviewing/considering);
2. Overview of the contracting process (e.g., who is/was involved in the review, analysis, and structuring);
3. Any contract analysis performed prior to execution;
4. Description of the transaction flows and related controls for each activity (i.e., [REDACTED] Platform, [REDACTED] Program, and [REDACTED] Program);
5. Detailed description of the settlement process for customer buy/sell transactions between the Bank [REDACTED], and any other related parties for each activity (i.e., [REDACTED] Platform, [REDACTED] [REDACTED] Program, and [REDACTED] Program);
6. The Bank's permissibility analysis and determination with respect to each activity;
7. The Bank's analysis of SEC SAB 121 and its applicability;
8. Any cost-benefit analysis conducted;
9. Project plan for each activity;
10. Vendor management due diligence analysis related to [REDACTED] and vendor due diligence documentation and analysis related to [REDACTED] role in this product (including audits, financials, insurance, complaints, etc.);
11. Description of what happens to customers' accounts or holdings of Bitcoin if the Bank does not continue or cancels offering the services provided by [REDACTED];
12. Details on operational aspects of the [REDACTED] and [REDACTED] Programs including, but not limited to: 1) the types of credit and debit cards or savings and money market accounts that can be enrolled in the program, 2) the process of converting [REDACTED] or USD to Bitcoin, 3) when and how transaction receipts are provided for purchase transactions, 4) and if and how customers can turn the features on or off for any given period;
13. Description of any fees charged to consumers related to the [REDACTED] Platform, [REDACTED] [REDACTED] Program, and [REDACTED] Program, and how they will be calculated (describe if and how fees are split amongst the Bank and any third parties involved in the activities);
14. Description of any transaction limitations imposed by [REDACTED] or the Bank on the amount of Bitcoin a consumer may purchase or sell through the [REDACTED] Platform (e.g., daily, weekly, monthly). Similarly, describe any transaction limitations that exist, if any, through the [REDACTED] [REDACTED] Program and [REDACTED] Program (including any minimum purchase amounts). Provide a description of the methodology that determines the price a consumer pays to [REDACTED] for Bitcoin through the [REDACTED] Platform, [REDACTED] Program, and [REDACTED] [REDACTED] Program. This includes providing an explanation of how any market or benchmark price is determined and how the spread, if any, is calculated;
15. Copies of consumer agreements, disclosures, and other terms and conditions related to each of the activities provided by or through the Bank and by third parties (draft or proposed);
16. Marketing materials, press releases, internal scripts, educational materials, and any other publicly distributed information related to each of the activities (draft or proposed). This includes screen shots/screen recordings of any online banking or mobile application user interfaces (including hidden text that must be clicked) that will be made visible to consumers by, or through, the Bank in connection with each of the activities;

17. Strategic plan that details how crypto-asset activities achieve the objectives of the Board and any contingency plan, should the activities fail to achieve the objectives;
18. Implementation plan. For each activity, please include expected volumes, income projections used to determine whether the products are financially feasible, and any other analysis performed to support launching the products;
19. Board and committee minutes reflecting discussion, analysis, approval, and any documentation provided on the activities;
20. Internal training materials related to the activities;
21. Policies and procedures that will govern each of the crypto-related activities, including those related to consumer compliance and complaint resolution (we acknowledge receipt of the policy outline previously submitted, this request is for the policies and procedures);
22. If not outlined in policies and procedures, framework of assigned responsibilities and qualifications for those involved in day-to-day administration of crypto-related activity, including internal controls responsibilities. Description of oversight responsibilities (e.g., management, staff, committees (including members, frequency of meetings), and collectively, their approval authority); and
23. Description addressing the following: when a customer enrolls in the [REDACTED] Platform, [REDACTED] Program, and [REDACTED] Program, are the individual customer's Bitcoin balances purchased through each feature presented in aggregate or by program within the online banking and mobile application interface.
24. Describe how the risk assessment was developed, what policies govern the structure/process for risk assessments, and which staff performed the risk assessment. Explain how the Bank determined the risk assessment scope is appropriate for all three product types collectively [REDACTED], [REDACTED], and [REDACTED].
25. The Risk Assessment includes the following statement under [REDACTED],
“ [REDACTED]
[REDACTED]
[REDACTED] ”
 - a. Provide any quantitative analysis including projections and stress events developed by the Bank to support this [REDACTED].
26. The Risk Assessment includes the following statement, “[REDACTED]
[REDACTED].”
 - a. Provide the Bank's legal analysis and support for that statement.
27. The Risk Assessment includes the following statement under Compliance Risk, “[REDACTED]
[REDACTED]”
 - a. Provide the relevant audit reports that the Bank considers as the risk mitigants.
28. The Risk Assessment includes the following statement under Compliance Risk, “[REDACTED]
[REDACTED]”
 - a. Provide a description of PII exchanged between the bank, the technology service provider, and [REDACTED].
29. The Risk Assessment includes the following statement under Operational Risk, “[REDACTED]
[REDACTED]”
 - a. Provide a copy of these reports.
30. The Risk Assessment includes the following statement under Operational Risk, “[REDACTED]
[REDACTED]”
 - a. Provide a copy of the general and digital asset-specific insurance policies.

31. The Risk Assessment includes the following statement under Operational Risk, "[REDACTED]"
- a. Provide a copy of the [REDACTED] the bank has considered as operational risk mitigants.
32. The Risk Assessment includes the following statement under Reputational Risk, "[REDACTED]"
- a. Provide a copy of analysis performed regarding this stated "[REDACTED]."
33. Page 15 of the Risk Assessment includes the following statement, "[REDACTED]"
- a. Provide information regarding these controls, protocols, and systems developed and implemented by the Bank.
34. Page 17 of the Risk Assessment includes the following statement, "[REDACTED]"
- a. Explain how the Bank performs this monitoring and provide copies of monitoring reports.
35. Page 17 of the Risk Assessment also includes the following statement, "[REDACTED]"
- a. Explain how management assessed the adequacy of the Bank's management information systems relative to this service.
 - b. Provide a description of the controls that have been established as stated.
 - c. Provide copies of the described monitoring, reporting, and exception management documentation.
36. Page 18 of the Risk Assessment also includes the following statement, "[REDACTED]"
- a. Provide any such reports or anticipated content of such reports planned for Audit Committee.

DOCUMENT 19



Federal Deposit Insurance Corporation
Division of Risk Management Supervision
Division of Depositor and Consumer Protection
300 South Riverside Plaza, Suite 1700, Chicago, IL 60606

Chicago Regional Office
Phone (312) 382-7500
Fax (312) 382-6901

September 9, 2022

Board of Directors

[REDACTED]

Subject: Third-Party Crypto-Asset Activity

Dear Members of the Board:

On June 30, 2022, Executive Vice President [REDACTED] submitted a notification of the Bank's intended crypto-asset activities in response to Financial Institution Letter-16-2022, *Notification of Engaging in Crypto-Related Activities* (FIL-16-2022). Acting Case Manager [REDACTED] also held a discussion with Head of Digital Assets [REDACTED] on July 15, 2022 regarding the proposed crypto-asset activities. As discussed during the call, [REDACTED] is developing a Digital Asset department and seeks to implement the following crypto-asset services for bank customers: custodian services (end of the third quarter 2022); facilitation of buying and selling crypto-assets (after custodian services implementation); and, allowing customers to spend/withdraw bitcoin (no timeline).

The FDIC requests insured depository institutions provide sufficient information to assist the FDIC to assess the safety and soundness, consumer protection, and financial stability implications of crypto-asset activities. The FDIC requests the Bank provide the information in the attached list by October 18, 2022, so that the FDIC may begin those assessments. If the requested information has not yet been developed, provide the status and timeline for developing each item in the response, as applicable. Once the FDIC has completed its review of the requested information, we will determine whether additional information is necessary to complete the review of the activity. When we have completed our review, the FDIC will provide the institution with relevant supervisory feedback, as appropriate. Accordingly, until we complete our review, we request that the Bank not proceed with planned activities, pending FDIC supervisory feedback.

If you have any questions, please contact Case Manager [REDACTED] at [REDACTED] or Regional Examination Specialist [REDACTED] at [REDACTED]. Written correspondence should be addressed to my attention at the Chicago Regional Office, and sent as a PDF document through the FDIC's Secure Email portal (securemail.fdic.gov) using the following e-mail address: CHIMailRoom@FDIC.gov.

Sincerely,
Gregory P. Bottone
Regional Director

Enclosure – Crypto-Asset Activity Request List

cc: [REDACTED]
Federal Reserve Bank of Chicago

Crypto-Asset Activity Request List

1. Strategic Plan that details how crypto-related activity achieves objectives of the Bank's Board and the Contingency Plan in the event the activity fails to achieve those objectives.
2. Project/Implementation plan including, but not limited to, expected volumes of activity or contemplated activity limits, cost benefit analysis including income projections used to determine whether the services are financially feasible, and any other analysis performed to support launching the services.
3. Risk assessments for all crypto-related services. Consideration should be made to Safety and Soundness, Information Technology, Anti-Money Laundering/Combating the Financing of Terrorism, and Consumer Compliance.
4. Vendor management due diligence documentation, and analysis for all vendors that will provide crypto-related technologies or services.
5. Board and committee minutes reflecting approval, discussion, analysis, and any documentation provided on the activity.
6. Draft contracts and legal agreements between the Bank and crypto-related third party vendors.
7. Policies and procedures that will govern the crypto-related activity, including those related to consumer compliance and complaint resolution.
8. If not outlined in policies and procedures, the framework of assigned responsibilities and qualifications for those involved in day-to-day administration of digital asset activity, including internal controls responsibilities, and a description of oversight responsibilities, for example: management; staff; committees, including committee members; frequency of meetings; and collectively, their approval authority, and expertise required to be a committee member.
9. Draft marketing plans, including press releases, educational and training materials, and any other proposed public distributions.
10. Draft consumer agreements, disclosures, or other terms and conditions related to these activities provided by, or through, the Bank and by third parties.
11. Legal analysis of the permissibility of the proposed services under part 362 of the FDIC's Rules and Regulations, and under the State of [REDACTED] banking regulations.
12. Analysis performed with respect to SEC Staff Accounting Bulletin No. 121 and proposed services.
13. Plans for ongoing monitoring and audit of crypto-related products and services.

DOCUMENT 20



FEDERAL DEPOSIT INSURANCE CORPORATION
10 10th Street NE, Suite 800
Atlanta, Georgia 30309-3849

Atlanta Regional Office
Division of Risk Management Supervision
Division of Depositor and Consumer Protection
(678) 916-2200

September 13, 2022

Sent via secure email

Board of Directors

[REDACTED]
[REDACTED]
[REDACTED]

Subject: Third-Party Crypto-Asset Activity

Dear Members of the Board:

On August 17, 2022, we received [REDACTED] (the Bank) notification, in response to Financial Institution Letter (FIL), [FIL-16-2022, Notification of Engaging in Crypto-Related Activities](#), of the Bank's intent to offer customers the ability to buy, sell, and hold Bitcoin through the Bank's digital and mobile banking platform in conjunction with [REDACTED]. FIL-16-2022 requests that all FDIC-supervised institutions that intend to engage in, or that are currently engaged in, any activities involving or related to crypto-assets (also referred to as "digital assets") promptly notify the appropriate FDIC Regional Director.

As stated in FIL-16-2022, the FDIC may request that institutions provide information necessary to allow the FDIC to assess the safety and soundness, consumer protection, and financial stability implications of such activities. In order to begin those assessments, please provide the information in the attached list by November 14, 2022. If the requested information has not yet been developed, include the status and timeline for developing each item in the response, as applicable. Once the FDIC has completed its review of the above-requested information, we will determine whether additional information is necessary to complete the review of the activity. When we have completed our review, the FDIC will provide the institution with relevant supervisory feedback, as appropriate. Accordingly, until we complete our review, we request that the Bank refrain from providing these services to its customers.

Board of Directors
[REDACTED]

Page 2 of 2

This letter is confidential and may not be disclosed or made public in any manner under part 309 of the FDIC Rules and Regulations (12 CFR part 309). If you have any questions, please contact Case Manager [REDACTED] at [REDACTED] or [REDACTED] or Review Examiner [REDACTED] at [REDACTED] or [REDACTED]. Written correspondence should be addressed to my attention at the Atlanta Regional Office, and sent as a PDF document through the FDIC's Secure Email portal (securemail.fdic.gov) using the following e-mail address: ATLMailRoom@fdic.gov.

Sincerely,

JOHN
Digitally signed
by JOHN VOGEL
Date: 2022.09.13
16:45:08 -04'00'

John F. Vogel
Acting Regional Director

cc: [REDACTED]

Enclosure

Crypto-Asset Activity Request List

Documentation (Prospective):

1. Contracts (including any draft contracts that bank is reviewing/considering);
2. Overview of the contracting process (e.g., who is/was involved in the review, analysis, and structuring)
3. Any contract analysis performed prior to execution
4. The bank's permissibility analysis and determination with respect to the activity
5. Bank's analysis of SEC SAB 121 and its applicability
6. Cost-benefit analysis
7. Project plan
8. Vendor management due diligence documentation and analysis related to both [REDACTED] and [REDACTED] including audits, financials, insurance, complaints, etc.
9. Description of what happens to customers' accounts or holdings of Bitcoin if the bank does not continue or cancels offering the services provided by [REDACTED]
10. Description of any fees that will be charged to consumers related to the activity, and how they will be calculated. Also, describe if and how fees are split amongst the bank and any third parties involved in the activity.
11. Description of any transaction limitations imposed by [REDACTED] or the bank on the amount of Bitcoin a consumer may purchase or sell (e.g. daily, weekly, monthly).
12. Description of the methodology that determines the price a consumer pays to [REDACTED] for Bitcoin. This includes providing an explanation of how any market price is determined and how the spread, if any, is calculated.
13. Consumer agreements, disclosures, and other terms and conditions related to the activities provided by or through the bank and by third parties (draft or proposed)
14. Marketing materials, press releases, internal scripts, educational materials, and any other publicly-distributed information related to the activity (draft or proposed). This includes screen shots/screen recordings of any online banking or mobile application user interfaces (including hidden text that must be clicked) that will be made visible to consumers by, or through, the bank in connection with activities.
15. Any other due diligence materials.
16. Strategic plan that details how crypto-asset activity achieves objectives of the board and the contingency plan should the activity fail to achieve the objectives.
17. Implementation plan. Please include expected activity volumes, income projections used to determine whether the products are financially feasible, and any other analysis performed to support launching the products.
18. Board and committee minutes reflecting discussion, analysis, approval, and any documentation provided on the activity.
19. Risk assessment(s) related to the activity.
20. Internal training materials related to the activity.
21. Policies and procedures that will govern the crypto-related activity, including those related to consumer compliance and complaint resolution.
22. If not outlined in policies and procedures, framework of assigned responsibilities and qualifications for those involved in day-to-day administration of crypto-related activity, including internal controls responsibilities. Description of oversight responsibilities (e.g. management, staff, committees (including members, frequency of meetings), and collectively, their approval authority).

DOCUMENT 21



600 North Pearl Street, Suite 700
Dallas, Texas 75201
(214) 754-0098 FAX (972) 761-2082

Dallas Regional Office
Division of Risk Management Supervision
Division of Depositor and Consumer Protection

SENT VIA SECURE ELECTRONIC EMAIL

September 14, 2022

Board of Directors
[REDACTED]

Subject: Notification of Crypto-Asset Related Activity

Dear Members of the Board:

By email dated August 17, 2022, Senior Vice President/Chief Operating Officer [REDACTED] notified us of [REDACTED] intent to provide its customers the ability to buy, sell, and hold Bitcoin through a mobile banking platform in conjunction with [REDACTED]

As stated in FIL-16-2022, *Notification of Engaging in Crypto-Related Activities*, the FDIC may request that institutions provide information necessary to allow the FDIC to assess the safety and soundness, consumer protection, and financial stability implications of such activities. In order to begin those assessments, please provide the information in the attached list **by November 14, 2022**. If the requested information has not yet been developed, please include the status and timeline for developing each item in the response, as applicable. Once the FDIC has completed its review of the requested information, we will determine whether additional information is necessary to complete the review of the activity. When we have completed our review, the FDIC will provide the institution with relevant supervisory feedback, as appropriate. Accordingly, until we complete our review, we request that the bank refrain from providing this service to its customers.

This letter is confidential and may not be disclosed or made public in any manner under part 309 of the FDIC Rules and Regulations (12 CFR part 309). If you have any questions, please contact Case Manager [REDACTED] at [REDACTED]. Written correspondence should be addressed to Kristie K. Elmquist, Regional Director, FDIC, Dallas Regional Office, and sent as a PDF document through the FDIC's Secure Email portal (<https://securemail.fdic.gov/>) using the following e-mail address: DALMailRoom@fdic.gov. Information about how to use secure email and FAQs about the service can be found at <https://www.fdic.gov/secureemail/>.

[REDACTED]

Sincerely,

Kristie K. Elmquist
Regional Director

Attachment

cc: Federal Reserve Bank of Dallas

[REDACTED]

Crypto-Asset Activity Request List – [REDACTED]

Documentation:

1. Contracts (including any draft contracts that bank is reviewing/considering)
2. Overview of the contracting process (e.g., who is/was involved in the review, analysis, and structuring)
3. Any contract analysis performed prior to execution
4. Description of the transaction flows and related controls
5. Detailed description of the settlement process for customer buy/sell transactions between the bank, [REDACTED], and any other related parties
6. The bank's permissibility analysis and determination with respect to the activity
7. Bank's analysis of SEC SAB 121 and its applicability
8. Cost-benefit analysis
9. Project plan
10. Vendor management due diligence documentation and analysis related to both [REDACTED] and [REDACTED], including audits, financials, insurance, complaints, etc.
11. Description of what happens to customers' accounts or holdings of Bitcoin, if the bank does not continue or cancels offering the services provided by [REDACTED]
12. Description of any fees that will be charged to consumers related to the activity, and how they will be calculated. Also, describe if and how fees are split amongst the bank and any third-parties involved in the activity.
13. Description of any transaction limitations imposed by [REDACTED] or the bank on the amount of Bitcoin a consumer may purchase or sell (e.g. daily, weekly, monthly)
14. Description of the methodology that determines the price consumer pays to [REDACTED] for bitcoin. This includes providing an explanation of how any market price is determined and how the spread, if any, is calculated.
15. Consumer agreements, disclosures, sample account statement, sample transaction receipt, and other terms and conditions related to the activities provided by or through the bank and by third parties (draft or proposed)
16. Marketing materials, press releases, internal scripts, educational materials, and any other publicly-distributed information related to the activity (draft or proposed). This includes screen shots/screen recordings of any online banking or mobile application user interfaces (including hidden text that must be clicked) that will be made visible to consumers by, or through, the bank in connection with activities.
17. Any other due diligence materials
18. Strategic plan that details how crypto-asset activity achieves objectives of the board and the contingency plan should the activity fail to achieve the objectives
19. Implementation plan. Please include expected activity volumes, income projections used to determine whether the products are financially feasible, and any other analysis performed to support launching the products.
20. Board and committee minutes reflecting discussion, analysis, approval, and any documentation provided on the activity
21. Risk assessment(s) related to the activity
22. Internal training materials related to the activity

23. Policies and procedures that will govern the crypto-related activity, including those related to consumer compliance and complaint resolution
24. If not outlined in policies and procedures, framework of assigned responsibilities and qualifications for those involved in day-to-day administration of crypto-related activity, including internal controls responsibilities. Description of oversight responsibilities (e.g. management, staff, committees (including members, frequency of meetings), and collectively, their approval authority).

DOCUMENT 22



[REDACTED]

Transmitted by Electronic Correspondence

October 17, 2022

[REDACTED]
President & COO
[REDACTED]

RE: Notification of Crypto-Related Activities

Dear [REDACTED]:

On July 8, 2022, we received your letter notifying the FDIC and [REDACTED] of your institution's involvement in crypto-related activities, in response to Financial Institution Letter (FIL), [FIL-16-2022, Notification of Engaging in Crypto-Related Activities](#). FIL-16-2022 requested that all FDIC-supervised institutions that intend to engage in, or that are currently engaged in, any activities involving or related to crypto-assets (also referred to as "digital assets") promptly notify the appropriate FDIC Regional Director.

We understand that in 2021, the Bank began exploring crypto-related activities and has decided to not offer crypto-asset products or services to Bank customers. The notification letter also stated that the Bank acquired three types of crypto-assets and subsequently exchanged less than \$25,000 in crypto-assets for Non-Fungible Tokens (NFT). Further, the notification letter says the Bank currently holds approximately \$1,300 worth of crypto-assets with a custodian. After a review of the Bank's notification letter, we have determined that additional information is needed to further clarify the crypto-related activities being conducted and crypto-related assets held by the Bank.

As stated in FIL-16-2022, the FDIC may request that institutions provide information necessary to allow the FDIC to assess the safety and soundness, consumer protection, and financial stability implications of such activities. To assist in the review of the Bank's crypto-related activities, please provide the documentation listed below within 30 days of the date of this letter.

- Provide the Bank's most recent internal [REDACTED] Report reflecting crypto-assets and purchased NFTs, including volumes and values.

[REDACTED]

[REDACTED]

[REDACTED]

- Explain the methods used to report and value (e.g., cost or fair value) the crypto-assets and NFTs on the Call Report. Provide supporting documentation and analysis. Include financial statement disclosures concerning these activities.
- The Bank's 12/31/2021 [REDACTED] Report shows \$98,900 "[REDACTED]" held at [REDACTED]. Clarify whether that "[REDACTED]" is U.S. Dollars or [REDACTED] dollars. If U.S. Dollars, what is the purpose for holding this amount at [REDACTED] and for what purpose are the funds intended to be used? If [REDACTED] dollars, please clarify the discrepancy in the amount because the Bank reports \$1,300 in crypto-assets in the notification letter.
- Please clarify whether the Bank owns any other crypto-assets or NFTs, other than what has already been disclosed.
- Explain how the Bank uses the NFTs currently owned for promotional purposes and provide internal employee training material.
- Please provide details about whether Directors and/or Officers of the Bank have a financial or other interest in the acquired NFTs.
- Provide an independent legal analysis of the permissibility of the Bank acquiring and holding crypto-assets and NFTs under part 362 of the FDIC Regulations (12 CFR part 362) and other relevant state and federal laws.

Until we complete our review, we request the Bank refrain from purchasing additional crypto-assets and NFTs. When we have completed our review, we will provide the institution with relevant supervisory feedback, as appropriate.

Please notify us of any material changes in these activities or intent to engage in other crypto-related activities. This letter is confidential and may not be disclosed or made public in any manner under part 309 of the FDIC Rules and Regulations (12 CFR part 309). Questions should be directed to FDIC Case Manager [REDACTED] at [REDACTED] and [REDACTED] at [REDACTED].

Sincerely,

/s/ Kathy L. Moe

Kathy L. Moe
Regional Director
Federal Deposit Insurance Corporation

[REDACTED]

[REDACTED]

DOCUMENT 23



FDIC
Federal Deposit Insurance Corporation
25 Jessie Street at Ecker Square, Suite 2300
San Francisco, California 94105

Division of Risk Management Supervision
Division of Consumer Protection
San Francisco Regional Office
(415) 546-0160

Sent via secure email

October 21, 2022

Board of Directors

[REDACTED]
[REDACTED] [REDACTED]
[REDACTED]

Subject: Notification of Engaging in Crypto-Related Activities

Dear Members of the Board:

During a virtual meeting held on May 6, 2021, President [REDACTED], Executive Vice President (EVP) and Chief Financial Officer [REDACTED], EVP and Chief Operating Officer [REDACTED], and other bank personnel presented and discussed the bank's then-newly announced partnership with [REDACTED] with staff of the FDIC and the [REDACTED]. During the meeting, bank management presented an overview of the relationship and planned activity to offer bank customers the ability to buy, hold, and sell Bitcoin through a mobile application. They also discussed management's risk assessment; the extent of contractual agreements; contemplated structure of the arrangements with [REDACTED] and the bank's core service provider [REDACTED]; planned timeframe for implementation; the extent of planned crypto asset offerings; and the holding company's investment in [REDACTED].

On April 4, 2022, during a virtual meeting, bank management provided an update to FDIC and [REDACTED] staff on the project and their ongoing due diligence. Bank management also provided additional documents and information on April 5, 2022, and June 8, 2022, in response to follow-up requests from the FDIC. On August 2, 2022, Chief Executive Officer [REDACTED] notified FDIC Field Supervisor [REDACTED] that the project had moved from a development phase to a testing phase as part of the bank's ongoing due diligence.

On April 7, 2022, the FDIC issued Financial Institution Letter (FIL)-16-2022 ("Notification of Engaging in Crypto-Related Activities"). FIL-16-2022 requested that all FDIC-supervised institutions that intend to engage in, or that are currently engaged in, any activities involving or related to crypto-assets (also referred to as "digital assets") promptly notify the appropriate FDIC Regional Director and outlined a supervisory feedback process concerning a bank's current or planned crypto-asset related activity. The FIL is available at <https://www.fdic.gov/news/financial-institution-letters/2022/fil22016.html>. As stated in FIL-16-2022, the FDIC may request that institutions provide information necessary to allow the FDIC to assess the safety and soundness, consumer protection, and financial stability implications of such activities. On October 6, 2022, the FDIC submitted a list of requested information to the bank,

Board of Directors
[REDACTED]

Page 2

which is currently under review as part of the examination that began on October 11, 2022. When we have completed our review, the FDIC will provide the bank with relevant supervisory feedback, as appropriate. Until we complete our review, we request that the bank refrain from providing this service to its customers.

Please notify us during our review period if there are any material changes in the planned service, the status of this project, or its planned implementation, to ensure that the bank is operating in a safe and sound manner and in compliance with consumer protection regulations.

This letter is confidential and may not be disclosed or made public in any manner under part 309 of the FDIC Rules and Regulations (12 CFR part 309). If you have any questions related to Risk Management, please contact Assistant Regional Director Jaclyn Valderrama at [REDACTED] or Case Manager [REDACTED] at [REDACTED]. For questions related to Consumer Protection, please contact Assistant Regional Director Matthew Sheeren at [REDACTED] or Review Examiner [REDACTED] at [REDACTED]. Written correspondence should be addressed to my attention at the San Francisco Regional Office, and sent as a PDF document through the FDIC's Secure Email portal (<https://securemail.fdic.gov/>) using the following e-mail address: SFMailRoom@fdic.gov. Information about how to use secure email and FAQs about the service can be found at <https://www.fdic.gov/secureemail/>.

Sincerely,

/s/ Kathy L. Moe

Kathy L. Moe
Regional Director

cc: [REDACTED]

Federal Reserve Bank of San Francisco

DOCUMENT 24



Federal Deposit Insurance Corporation
Division of Risk Management Supervision
Division of Depositor and Consumer Protection
300 South Riverside Plaza, Suite 1700, Chicago, IL 60606

Chicago Regional Office
Phone (312) 382-7500
Fax (312) 382-6901

February 17, 2023

Board of Directors

[REDACTED]

Subject: Notification of Engagement in Blockchain Technology

Dear Members of the Board:

On September 28, 2022, the FDIC received notification of the bank's intent to partner with the [REDACTED] to offer [REDACTED]. The notification was provided pursuant to Financial Institution Letter (FIL)-16-2022, *Notification of Engaging in Crypto-Related Activities*. The FDIC requested additional information on December 13, 2022, to evaluate the safety and soundness, consumer protection, and financial stability considerations of the proposed activities.

The FDIC received the requested information from the bank on January 31, 2023. We will review the documents to determine whether subsequent information is necessary to evaluate the proposed activities. When we have completed our review, the FDIC will provide the bank with relevant supervisory feedback, as appropriate. Until we complete our review, we request that the bank refrain from providing the [REDACTED] and [REDACTED] to its customers.

Please notify us if there are any material changes in the planned service, the status of this project, or its planned implementation, to ensure that the bank is operating in a safe and sound manner and in compliance with consumer protection regulations.

This letter is confidential and may not be disclosed or made public in any manner under part 309 of the FDIC Rules and Regulations. If you have any questions, please contact Case Manager [REDACTED] at [REDACTED] or Senior Review Examiner [REDACTED] at [REDACTED].

Sincerely,
Gregory P. Bottone
Regional Director

cc: [REDACTED]
Federal Reserve Bank of Chicago

DOCUMENT 25



Federal Deposit Insurance Corporation
350 Fifth Avenue, Suite 1200
New York, New York 10118

New York Regional Office

May 5, 2023

Board of Directors
[REDACTED]

Subject: Information Request – Proposed Crypto-Asset Banking Activity

Dear Board Members:

On March 13, 2023, we received [REDACTED] (the Bank) notification of its intent to provide a bank account to [REDACTED] for the purpose of holding deposit reserves corresponding to [REDACTED] issuance of a stablecoin, [REDACTED] as requested in Financial Institution Letter (FIL), [FIL-16-2022, Notification of Engaging in Crypto-Related Activities](#).

As stated in FIL-16-2022, the FDIC may request that institutions provide information necessary to allow the FDIC to assess the safety and soundness, consumer protection, and financial stability implications of such activities. In order to begin those assessments, please provide the information in the attached list by May 15, 2023. If the requested information has not yet been developed, please include the status and timeline for developing each item in the response, as applicable. Once the FDIC has completed its review of the requested information, we will determine whether additional information is necessary to complete the review of the proposed activity. When we have completed our review, the FDIC will provide the institution with relevant supervisory feedback, as appropriate. [REDACTED] should not proceed with any crypto-asset activity until such time that the FDIC has determined [REDACTED] ability to implement the activity in a safe and sound manner.

This letter is confidential and may not be disclosed or made public in any manner under Part 309 of the FDIC Rules and Regulations (12 C.F.R. 309). If you have any questions, please contact Senior Case Manager [REDACTED] at [REDACTED] or Senior Review Examiner [REDACTED] at [REDACTED]. Written correspondence should be addressed to my attention at the New York Regional Office, and sent as a PDF document through the FDIC's Secure Email portal (securemail.fdic.gov) using the following e-mail address: NYMailroom@fdic.gov.

Sincerely,
Frank R. Hughes
Regional Director

Attachment: Crypto-Asset Activity Request List

cc: [REDACTED]

Crypto-Asset Activity Request List

1. Product and Key Initiative Risk Assessment, including considerations regarding applicable consumer compliance and Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT)-related laws and regulations.
2. Due Diligence Memo and supporting documentation, including the [REDACTED] SOC1 report.
3. Board of Directors materials and minutes evidencing approval of the proposed activity.
4. Legal opinion on permissibility.
5. Brokered deposit applicability analysis.
6. Deposit volatility analysis.
7. Revisions to the contingency funding plan and other elements of liquidity risk management.
8. Liquidity stress testing analysis, both bank-wide and [REDACTED].
9. Wind down plan should [REDACTED] withdraw the [REDACTED] relationship from the Bank and a description of how a withdrawal has been incorporated into the contingency funding planning and liquidity stress testing.
10. Capital analysis, including a description of scenarios developed, assumptions, and methodology.
11. An updated description and information on the Bank's deployment of deposit funds received from [REDACTED] customers.
12. A description of any transactions between the proposed [REDACTED] reserve deposit account and the existing [REDACTED] payments account.
13. A description of procedures to monitor compliance with AML/CFT requirements, including customer identification and beneficial owner verification requirements at account opening.
14. Applicable client disclosures to end-users.
15. [REDACTED] marketing materials, including planned advertising, press releases, or other public statements, including any planned, drafted, or issued materials or media that contain the FDIC name or logo.
16. Describe any existing or expected statements or representations made regarding FDIC deposit insurance, including pass thru insurance, in association with any [REDACTED] deposits or any [REDACTED] customer deposits held at the Bank.
17. All (including drafts if not final) term sheets, binding commitments, and other agreements between the Bank and [REDACTED] including deposit account agreements (collectively, the Agreements).
18. If not addressed in the Agreements, describe any Bank responsibilities or obligations related to collateral requirements, balancing, verification, or attestation requirements (i.e. who is responsible for verifying the reserves are in place), and if [REDACTED] has any investment criteria.
19. A description of the timing of funds flowing from [REDACTED] to the Bank, and in reverse, the deposit and redemption of funds from purchases and redemptions of [REDACTED].
20. Describe whether or not the Bank has any explicit or implicit redemption obligations or there is a presumption that the Bank could be or is a redemption agent for [REDACTED] on either a wholesale or retail basis.
21. What percentage of [REDACTED] reserves could be held at the Bank? Is there a minimum or maximum?
22. Describe the Bank's expectations of future business relationship expansion with [REDACTED] given the partnership between [REDACTED].
23. Describe any expectations of [REDACTED] wallet integration/connection for the purpose of direct [REDACTED] redemptions by the Bank.