

FDIC Records—Correspondence Related to Crypto-Related Activities

February 5, 2025

Pages 2 through 280 (64 records) consist of FDIC correspondence with the 24 banks that received “pause letters” as detailed in the FDIC OIG’s report entitled “[FDIC Strategies Related to Crypto-Asset Risks](#)” (FDIC OIG EVAL-24-01 Oct. 2023).

Pages 281 through 790 (111 records) consist of FDIC correspondence and other records involving the crypto-related activities of other regulated institutions.



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

April 24, 2023

Board of Directors
[REDACTED]

Subject: Third-Party Crypto-Asset Activity

Dear Members of the Board:

On June 30, 2022, [REDACTED] (the Bank) notified the Federal Deposit Insurance Corporation (FDIC) of the intent to offer crypto-asset services to customers. This notification was in response to Financial Institution Letter (FIL), FIL-16-2022, *Notification of Engaging in Crypto-Related Activities*. Acting Case Manager [REDACTED] held a phone discussion with Head of Digital Assets [REDACTED] on July 15, 2022, to discuss the Bank's crypto-asset plans.

On September 9, 2022, the FDIC sent a letter to the Board requesting that the Bank delay expansion of crypto-asset services while the FDIC considered the proposed crypto-related activity. Furthermore, the letter provided a crypto-asset activity request list and requested the information by October 18, 2022. On October 11, 2022, the Bank informed the FDIC that, due to prioritization of other projects, more time was needed to assemble the information. The letter stated that the request list should be completed by the first part of 2023.

On March 15, 2023, Case Manager [REDACTED] and Review Examiner [REDACTED] held a phone discussion with Bank management to discuss the status of crypto-asset initiatives. On March 28, 2023, Chairman and CEO [REDACTED] submitted a letter updating the FDIC and [REDACTED] on the status of the Bank's crypto-asset activities in response to FIL-16-2022. CEO [REDACTED] stated that, due to other projects, including the consummation of a merger, the Bank does not expect to launch crypto-related activities before the fourth quarter of 2023; however, no clear proposed timeline for the activity has been provided. To date, the FDIC also has not received any of the items requested in its letter to the Bank dated September 9, 2022.

Please keep the FDIC and [REDACTED] updated as to the timeline for the Bank's crypto-asset plans and when the previously requested items will be received. The FDIC's September 9, 2022 letter included a request list and requested that the Bank not proceed with planned activities until the FDIC had completed its review and provided supervisory feedback.

[REDACTED]

If you have any questions, please contact Case Manager [REDACTED] or Review Examiner [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

cc: [REDACTED]
Federal Reserve Bank of Chicago



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

August 10, 2023

Board of Directors



Subject: Response to Notification – Third-Party Crypto-Asset Activity

Dear Members of the Board:

On June 30, 2022, [REDACTED] (the Bank) notified the Federal Deposit Insurance Corporation (FDIC) of the intent to offer various crypto-asset services to customers. This notification was in response to Financial Institution Letter (FIL), FIL-16-2022, *Notification of Engaging in Crypto-Related Activities*. Acting Case Manager [REDACTED] held a phone discussion with Head of Digital Assets [REDACTED] on July 15, 2022, to discuss the Bank's crypto-asset plans.

On September 9, 2022, the FDIC sent a letter to the Board requesting that the Bank delay expansion of crypto-asset services until the FDIC completed its review of the proposed crypto-related activity. Furthermore, the letter provided a crypto-asset activity request list and requested the information by October 18, 2022. On October 11, 2022, the Bank informed the FDIC that, due to prioritization of other projects, the Bank needed more time to assemble the requested information. The Bank's letter stated that the Bank expected to provide the requested items by the first part of 2023. To date, the FDIC has not received any of the items requested in its September 9, 2022 letter to the Bank.

On March 15, 2023, Case Manager [REDACTED] and Review Examiner [REDACTED] held a phone discussion with Bank management to discuss the status of crypto-asset initiatives. On March 28, 2023, Chairman and CEO [REDACTED] submitted a letter updating the FDIC and [REDACTED] on the status of the Bank's crypto-asset activities stating that, due to other projects, including the consummation of a merger, the Bank does not expect to launch crypto-related activities before the fourth quarter of 2023. However, no clear proposed timeline for the activity was provided. Subsequent to this discussion, on April 24, 2023, the FDIC sent a letter to the Board to acknowledge the status of this activity, to request that the Bank keep the FDIC informed of its timeline, and to inquire when the information requested on September 9, 2022 would be submitted.

In a subsequent letter sent to the FDIC and [REDACTED] dated July 17, 2023 and received by email on July 19, 2023, CEO [REDACTED] stated that the Bank had decided to place all crypto-related activities on hold for an indefinite amount of time. The letter states that management would inform the FDIC if they choose to resume any of these activities. The FDIC acknowledges the Bank's updated status related to this activity, and the September 9, 2022 FDIC letter to the Board has been superseded as a result of the Bank's July 17, 2023 communication to the FDIC and [REDACTED]. We request that the Bank notify our office if the status of this activity, or other crypto-related activity, changes in the future.

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

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 questions, please contact Assistant Regional Director Debbie J. Bush [REDACTED] or Assistant Regional Director of Compliance Amy T. Richardson [REDACTED].

Sincerely,

Gregory P. Bottone
Regional Director

cc: [REDACTED]
Federal Reserve Bank of Chicago

VIA SECURE ELECTRONIC MAIL

February 27, 2023

[REDACTED]
Senior Vice President/Chief Operating Officer
[REDACTED]

Re: Crypto Assets-Related Activity

Dear [REDACTED]:

We acknowledge receipt of the additional documents that you submitted on January 25, 2023, in response to the requested items in our December 12, 2022 email. Thank you for your response.

The FDIC continues to review crypto assets-related activities and various questions remain. Consistent with the procedures outlined in Financial Institution Letter 16-2022, *Notification of Engaging in Crypto-Related Activities*, the FDIC may request additional information to assist us in reviewing the activity and providing supervisory feedback to the bank.

To assess the safety and soundness, consumer protection, and financial stability implications of the proposed activity, the FDIC would like to schedule a Visitation at your bank starting on April 10, 2023. The [REDACTED] will also participate on the Visitation. We will contact management to provide additional details of the Visitation.

If you have any questions, please contact Case Manager [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,

Eric T. Guyot (Signed)

Eric T. Guyot
Assistant Regional Director

cc: [REDACTED]



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

SENT VIA SECURE ELECTRONIC MAIL

April 26, 2023

Board of Directors



Subject: Response to Notification of Engagement in Crypto-Related Activities

Dear Members of the Board:

We acknowledge the notification provided by Senior Vice President (SVP) [REDACTED] on August 17, 2022, of the bank's intent to offer Bitcoin services to its customers through a third-party arrangement with [REDACTED]. The notification was provided pursuant to Financial Institution Letter (FIL), 16-2022, *Notification of Engaging in Crypto-Related Activities*. On September 14, 2022, the FDIC sent a letter to the Board requesting information necessary for us to assess the safety and soundness, consumer protection, and financial stability implications of the proposed activities. In the letter, we requested that the bank refrain from providing the service to its customers until we completed our review. On December 12, 2022, we sent management follow-up questions and requested additional information to assist in the review. On February 27, 2023, we notified the bank of our intent perform a Visitation at the bank starting on April 10, 2023, to continue the review of the proposed crypto-related activities and provide supervisory feedback to the bank.

In an email dated March 8, 2023, SVP [REDACTED] stated that the Board decided to cancel the arrangement with [REDACTED] and cease pursuing crypto-related activities at this time. We acknowledge the Board's decision and the bank's updated status related to this activity. As a result of the bank's March 8, 2023 communication to the FDIC, we decided to cancel the April 10, 2023 Visitation and the September 14, 2022 FDIC letter to the Board has been superseded. We request that the bank notify us if the status of these activities, or any other proposed crypto-related activity, changes.

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 questions relating to safety and soundness, please contact Case Manager [REDACTED] or by email at [REDACTED]. If you have questions relating to CRA or consumer compliance, please contact Review Examiner [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 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:



Federal Deposit Insurance Corporation

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

New York Regional Office

April 25, 2022

Board of Directors

Chief Executive Officer

Subject: Questions Related to

Dear Members of the Board:

On February 22, 2022, the FDIC, OCC, and Federal Reserve Board met with [REDACTED] and [REDACTED], including [REDACTED], [REDACTED]

[REDACTED] General Counsel and Corporate Secretary [REDACTED] participated in the meeting to discuss the [REDACTED] and its proposed launch. At that meeting, it was evident that [REDACTED] had yet to finalize the use cases or functionality of the product and the Operating Rules by which [REDACTED] would be governed. The discussion indicated phases or versions of the product with future solutions, and, subsequently, the FDIC has received revised information outlining three models under consideration for [REDACTED]

In our letter to you on March 25, 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 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://securemail.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/securemail/>.

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

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

Sincerely,
Jessica A. Kaemingk
Acting Regional Director

Attachment – [REDACTED] Questions

CC: [REDACTED]
Federal Reserve Bank of New York

Questions**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] 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].
- 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] 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 non-[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 [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] 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], 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] are reflected on the balance sheet of [REDACTED].
- b. Explain whether and how the [REDACTED] themselves are or will be reflected on the balance sheet of [REDACTED].
- c. Explain whether reserves will be held in connection with the [REDACTED] 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] liabilities.
- d. Provide example general ledger entries for [REDACTED]; 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 [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.

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

7. Use Cases.

- a. Provide a detailed description of planned and potential use cases for [REDACTED].
- b. Explain how the [REDACTED] differs from other bank-offered peer-to-peer payments platforms (e.g., [REDACTED]). Explain if the [REDACTED] interacts with any such platforms.
- c. Explain whether and how the [REDACTED] 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 [REDACTED] customers that elect to use [REDACTED] to conduct transactions.
- b. Describe the anticipated process for managing complaints from [REDACTED] customers related to [REDACTED].

- c. Explain any steps [REDACTED] will take to ensure consumers understand any difference in protections between [REDACTED] 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 [REDACTED] and the [REDACTED] will ensure such disputes are resolved in a timely basis and in accordance with network rules and applicable laws and regulations.
- e. Explain whether [REDACTED] or any other entity will indemnify customers for breaches to the wallets.
- f. Explain whether consumers are required to enter into an agreement with [REDACTED] (or another entity) to maintain a wallet.
- g. Describe any representations that [REDACTED] 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 [REDACTED] or the [REDACTED] or if there is some other arrangement.
- j. Identify the consumer data that will be shared with [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.

CONTROLLED//FDIC BUSINESS



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

October 6, 2023

Board of Directors

Subject: Transmittal Letter: Joint Examination Team (JET) Visitation Crypto-Related Activities Review at [REDACTED]

Dear Members of the Board:

On April 4, 2022, management initiated a new digital service through a third party, [REDACTED] and its affiliated entities (collectively [REDACTED]). This service, the [REDACTED] (Platform), allows retail deposit customers the option to buy, hold, and sell Bitcoin, and was embedded in the bank's online banking platform and mobile application ([REDACTED] Services) provided by [REDACTED].

After becoming aware of the activity, FDIC Dallas Regional Office representatives met with bank management on June 21, 2022, and requested that the bank provide notification as requested by FIL-16-2022 and pause onboarding new customers. Bank management notified the FDIC on July 8, 2022, and confirmed that the bank suspended new customer acceptance, but allowed existing customers to continue to trade. On July 14, 2022, the FDIC notified the bank's Board via letter that the agency was reviewing these activities and would be providing supervisory feedback, and requested that the bank refrain from expanding the service until the review's completion.

On October 31, 2022, an FDIC joint examination team from Division of Risk Management (RMS) and Division of Depositor and Consumer Protection (DCP), together with participation from the [REDACTED], began a joint visitation of the bank. The purpose of the visitation was to review the bank's new digital service offering customers the ability to purchase, hold, and sell Bitcoin via a third party arrangement. While finalizing visitation findings, on July 20, 2023, bank management notified the FDIC that [REDACTED] terminated its agreement with the bank effective immediately via a letter dated [REDACTED]. The FDIC is providing the following high-level comments, which summarize key findings from the information reviewed during the visitation and prior to the termination of the arrangement, to help inform management on the bank's third-party risk management practices. These findings include a [REDACTED] that requires corrective action.

SCOPE OF THE REVIEW

The October 31, 2022, visitation was led by DCP Examiner-in-Charge (EIC) [REDACTED] and RMS EIC [REDACTED]. The visitation focused on understanding and assessing the bank's risk

and compliance management frameworks governing the [REDACTED] Services. This includes, but was not limited to, management's actions to evaluate the services prior to implementation, processes established to identify, manage and mitigate potential risks presented by these services, and ongoing monitoring processes developed to oversee these services.

BACKGROUND

Crypto-related activities may pose safety and soundness and consumer protection risks to the institution and its customers. The types and levels of risks are dependent on the type of activity, implementation of the activity, and controls designed to mitigate risks. Examples of risks that may be present include, but are not limited to, compliance, legal, operational, third party, and strategic. Facilitating customer crypto-asset trading alongside traditional banking products and services may also present heightened risk to the Bank's customers, such as:

- Confusion about the role of the financial institution in crypto transactions;
- Lack of understanding about the nature and risks associated with crypto-asset products;
- Inability to differentiate between nondeposit products and traditional banking products, such as deposit accounts; and,
- Misunderstanding the applicability of Federal deposit insurance coverage.

SUPERVISORY FEEDBACK

The overall risk management and compliance management frameworks governing the [REDACTED] Services did not sufficiently identify, measure, monitor, and control existing risks. The Board is accountable for ensuring sufficient oversight, prudent risk appetites, and the effective identification, measurement, monitoring, and control of risks through the establishment of appropriate policies, procedures, risk assessments, internal controls, and review processes.

Management's strategic planning, initial due diligence and project implementation of the [REDACTED] Services was largely informal, lacked independence and Board oversight, was heavily reliant on [REDACTED]-provided information and on [REDACTED]'s relationship with [REDACTED], and was not sufficiently comprehensive for the initiative's significant strategic impact. The initial due diligence process was overly reliant on vendor-provided documents, and sufficient independent assessment and analysis was not evidenced. Further, Board minutes do not reflect any discussion of the [REDACTED] Services, and Board oversight appears limited to the inclusion of [REDACTED] as a potential vendor on the [REDACTED] meeting agenda and approving the new [REDACTED] Policy shortly before product launch.

Policies and written procedures governing the activities are either too brief or nonexistent. Further, bank management stated that they consider the [REDACTED] Service a non-deposit investment product, which appears to be inconsistent with the bank's internal [REDACTED] Policy, which states that [REDACTED]

[REDACTED] A documented legal permissibility analysis conducted prior to the project's implementation was not evidenced, and the bank's existing project management policies were not appropriately applied, resulting in inadequate project oversight by both the Board and senior management.

While no crypto-asset specific risk assessments were performed, the BSA/AML and OFAC Risk Assessment was updated to include crypto activities, but the additions were relatively minimal and did not address the more significant non-AML related risks. The outsourced vendor review of [REDACTED] was limited in both scope and depth, and did not assess certain key elements, such as financial analysis and operating controls, and the bank's internal review did not flag these issues. Further, management conducted an initial vendor review of [REDACTED] which included a consideration section titled "[REDACTED]" however, it does not address Unfair or Deceptive Acts or Practices under Section 5 of the Federal Trade Commission Act (UDAP), Electronic Fund Transfers (Regulation E), or FDIC Part 328 Advertisement of Membership, False Advertising, Misrepresentation of Insured Status, and Misuse of the FDIC's Name or Logo (FDIC Part 328). For example, in assessing potential risks related to Part 328, the analysis did not consider the restrictions on using the official advertising statement when advertising non-deposit products and the prohibitions against misrepresentations about deposit insurance and the misuse of the FDIC's name or logo, with respect to representations regarding Bitcoin.

Audits of the program were not performed or scheduled, and formal monitoring and activity report review processes were not established. Bank management was not familiar with all the reporting mechanisms available in [REDACTED] and did not determine what information was relevant to track to assess and control ongoing risks. Therefore, it is unknown if sufficient information was available and accessible to bank management. Also, the bank provided informal training to bank employees that included a background on Bitcoin and bank prepared FAQs; however, there was no formal training discussing the responsibilities of the bank and its employees in providing customer service for the [REDACTED] Service. Further, the bank's Complaint Policy was not updated to address the bank's responsibility or procedures for handling complaints or risks specific to the [REDACTED] Service.

The risk for customer confusion was heightened due to the [REDACTED] Service, which is a nondeposit product, that is only accessible to customers through the Bank's existing online banking and mobile application (app) platforms where FDIC-insured deposit products are also accessible. Management did not sufficiently enhance the compliance management system to identify and mitigate consumer compliance considerations related to this crypto-asset service.

In the various electronic pages presented to customers during the enrollment process, and when subsequently accessing the [REDACTED] Service or viewing the [REDACTED] through the [REDACTED] widget on the home page, some information was provided on the nature and risks related to the service, but such information was inconsistently presented, and the placement, format, and timing of such language was not always clear and conspicuous. Also, the terms and conditions or terminologies used in [REDACTED] disclosures, the online banking or mobile app screens, and bank

stated system parameters did not always align. For example, the information provided by Bank management states that there is a \$ [REDACTED] minimum purchase amount and a \$ [REDACTED] daily transaction limit. However, the terms and conditions that are provided to customers only disclose the \$ [REDACTED] buy limit per transaction.

Management developed a variety of marketing materials for the Platform, which were distributed physically at branches and through social media. These marketing materials advertise [REDACTED]. For example, one Bitcoin poster includes [REDACTED] with additional information in the fine print that Bitcoin is not FDIC insured, may lose value, and is not guaranteed by the bank. However, it did not include language that Bitcoin is not a deposit or other obligation of the institution. Also, this Bitcoin poster and a Bitcoin flyer both included the "Member FDIC" logo which contributed to a [REDACTED] of FDIC's Part 328.3(e)(2), which describes the requirements for non-deposit product advertisements. Please refer to the *Violations of Laws and Regulations* section below for additional details.

RESOURCES

The following Financial Institution Letters (FIL), along with their references and attachments, provide useful guidance to assist the Board and senior management related to considering offering crypto-related activities:

- FIL-54-2014: Filing and Documentation Procedures for State Banks Engaging, Directly or Indirectly, in Activities or Investments that are Permissible for National Banks
- FIL-16-2022: Notification of Engaging in Crypto-Related Activities
- FIL-35-2022: Advisory to FDIC-Insured Institutions Regarding Deposit Insurance and Dealings with Crypto Companies
- FIL-01-2023: Joint Statement on Crypto-Asset Risks to Banking Organizations
- FIL-29-2023: Interagency Guidance on Third-Party Relationships: Risk Management

Also, the *February 15, 1994 Interagency Statement on Retail Sales of Nondeposit Investment Products* may be a useful resource for Bank management when considering how to ensure clear and conspicuous language is provided to customers when offering nondeposit products.

VIOLATIONS OF LAWS AND REGULATIONS

Level 2/Medium Severity Apparent Violation

ADVERTISEMENT OF MEMBERSHIP - SUBPART A

The Federal Deposit Insurance Act (12 U.S.C. §§ 1818, 1819 (Tenth), 1820(c) and 1828(a)), as implemented by the Advertisement of Membership rule, 12 C.F.R. § 328.3(e), prohibits a financial institution from including the official advertising statement, or any other statement or symbol implying or suggesting the existence of Federal deposit insurance, in any advertisement

relating solely to non-deposit products and hybrid products. In mixed advertisements, a financial institution must clearly segregate the official advertising statement as provided in § 328.3(e)(4).

The bank is in apparent violation of this regulation, as multiple advertisements were developed and distributed that related solely to non-deposit products offered through the Platform, but displayed the FDIC official advertising statement. Examiners reviewed in-house advertisements developed by the bank related to the third-party crypto-asset service offered by [REDACTED] through the bank's online banking platform and mobile application provided by [REDACTED], that allowed deposit customers the option to buy, hold, and sell bitcoin. During 2022 certain advertisements for the [REDACTED] Platform (Platform) were physically displayed at branches and posted on the bank's social media channels. These advertisements each provided varying levels of detail regarding the Platform, but at a minimum, each included the bank's name and referenced bitcoin. For example, one advertisement included the bank's name in several places, the Bitcoin logo and reference to bitcoin, and additional information in the fine print that Bitcoin accounts and services are provided by [REDACTED] and that bitcoin is not FDIC insured, may lose value, and are not guaranteed by the bank. In addition, four [REDACTED] advertisements were posted to the bank's account relating solely to Bitcoin or the Platform. However, these advertisements also included an image of the FDIC official advertising statement "Member FDIC" in violation of FDIC's Part 328.3(e)(2)'s restrictions applicable to advertisements relating solely to non-deposit products.

The root cause of this violation is marketing personnel's misinterpretation of the Advertisement of Membership Rule. Although established procedures require that all advertisements be reviewed prior to publication, it is not clear whether the social media platforms are reviewed to ensure that non-deposit product advertisements are clearly disclosed. Bank management has since removed all but one of the Bitcoin advertisements on [REDACTED]

Examiners recommend that management review the remaining advertisement (if not previously removed from [REDACTED]), enhance advertising training for personnel creating and posting advertisements, and monitor activities to ensure that all advertisements, including social media postings, are reviewed prior to publication.

ACTION REQUESTED

In order to assess the implementation of the bank's [REDACTED] wind down plan, please provide this office with copies of the following records by October 31, 2023: 1) summary of key dates that termination benchmarks were completed; 2) account closure data and reconciliations reports; 3) a copy of the final [REDACTED] account closure notices provided to customers directly or posted on customer accounts; 4) copies of training material or general talking points provided bank staff on the wind down process; and, 5) information on customer complaints or inquiries received during the wind down process. After the FDIC's review of the documents, the FDIC will determine whether additional information is necessary to close this matter.

[REDACTED]
Visitation Letter

Page 6

Further, the Board should review this Letter at their next meeting and document their review in the minutes. For the [REDACTED] of False Advertising, Misrepresentation of Insured Status and Misuse of FDIC's Name or Logo regarding the advertising of the Bitcoin Service, please confirm management commitment to corrective action by providing a written response within 30 days of receipt of this Letter. The bank should retain a complete record and supporting documentation of corrective action taken for review at the next consumer compliance examination.

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). Please notify the FDIC immediately if you receive a subpoena or other legal process calling for the production of this Letter or a description of its content.

If you have any questions, please contact RMS Assistant Regional Director J. Mark Love at [REDACTED] or DCP Acting Assistant Regional Director Rafael Valle 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,

Kristie Elmquist

Kristie K. Elmquist
Regional Director

cc: [REDACTED]

March 18, 2024

Board of Directors



Subject: Crypto-Related Activities

Dear Members of the Board:

The FDIC acknowledges the notification provided by [REDACTED] dated July 8, 2022, regarding the Bank's engagement in a Bitcoin service through a third party, [REDACTED]

[REDACTED] and its affiliated entities (collectively [REDACTED])

The notification was provided pursuant 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. On July 14, 2022, the FDIC sent a letter to the Board requesting that the Bank not expand this service until the FDIC completed its review.

On October 31, 2022, the FDIC, with participation from the [REDACTED] began a visitation to assess the safety and soundness, consumer protection, and financial stability implications of such activities. While finalizing visitation findings, on July 20, 2023, bank management notified the FDIC that [REDACTED] terminated its agreement with the Bank via a letter dated [REDACTED]. The FDIC provided supervisory feedback through the Visitation Letter dated October 6, 2023, and requested certain information and documentation in order to assess the Bank's implementation of the [REDACTED] wind down plan. On October 31, 2023, the Bank submitted the requested information and documents to the FDIC. Bank management provided clarification regarding one remaining question on February 12, 2024, verbally and with a follow up email.

The FDIC acknowledges the Bank's updated status related to this activity, and the July 14, 2022 FDIC letter to the Board is superseded by this letter as a result of the communications with the FDIC. With regard to the Bank's July 8, 2022, notification pursuant to FIL-16-22, the FDIC's review is complete. We request that the Bank notify this office if the status of this activity, or other crypto-related activity, changes in the future.

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). Under no circumstances shall the Bank or any of its directors, officers, or employees disclose or make public the contents of this letter, or any portion thereof, without the prior written consent of the FDIC.

If you have any questions regarding the content of this letter, please contact FDIC Senior Case Manager [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/ Kristie K. Elmquist

Kristie K. Elmquist
Regional Director

cc: [REDACTED]
FRB - Dallas



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

December 13, 2022

Board of Directors
[REDACTED]

Subject: Notification of Engagement in Crypto-Related Activities

Dear Members of the Board:

The FDIC acknowledges the notification provided by [REDACTED] (the Bank) on September 28, 2022, regarding the Bank's intent to partner with the [REDACTED] to offer [REDACTED] and [REDACTED], which use blockchain technology. The notification was provided pursuant 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.

While the notification provides a summary of the proposed activities, implementation timeline, risk management program, and vendor due diligence process, the FDIC will need additional documentation to evaluate the safety and soundness, consumer protection, and financial stability considerations of the proposed activities. Enclosed is a request for additional information that we need to fully review the proposed activities and provide appropriate supervisory feedback to the bank. Please respond to the request no later than January 31, 2023.

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] or Senior Review Examiner [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

cc: [REDACTED]

ATTACHMENT

Provide each of the following for both the [REDACTED] platform and [REDACTED]

Technical

1. [REDACTED] architecture diagram.
2. Cloud architecture diagram including ethereum nodes [Execution Client Nodes and Beacon Nodes], [REDACTED] Layer2 details], Network Connectivity and Application Programming Interfaces. If any, FedRAMP certification of components.
3. Details of subscription model on [REDACTED]
4. Description of, in a cloud subscription model, how many nodes the bank will spin (how many active nodes) for a new instance/subscription and how quickly it is expandable (based on transaction load how quickly new nodes can be made active without impacting ongoing transaction).
5. Description of which entity (e.g., bank or [REDACTED] is responsible to run the execution layer/client(node)[Execution Engine or pre-merger Eth1].
6. Description of how many nodes will be involved in consensus layer/client (node)[Beacon Node or pre merger Eth2].
7. Provide the list of entity running Beacon Node that will participate in consensus.
8. Assuming this is a private, permissioned BlockChain, provide the following details:
 - <<Custom Genesis.json>> file
 - *chainId*
 - *homesteadBlock*
 - *eip150*<<block and hash>>
 - *eip155*<<block>>
 - *eip158*<<block>>
 - *byzantiumBlock*
 - *constantinopleBlock*
 - *petersburgBlock*
 - *istanbulBlock*
 - *clique, gasLimit, mixHash*
9. End to end transaction flow diagram (reflecting data and currency flows).
10. Details of logical controls, such as multifactor authentication, user access controls, user access monitoring, user access rights, and logging procedures.
11. Description of smart contracts use.
12. Detailed description of any disclosure of bank customers' personally identifiable information be disclosed to any outside party.

Operational

13. Risk Assessment.
14. Due Diligence analysis and associated documents.
15. Contracts (including any drafts that the bank is reviewing or considering).

16. Overview of the contracting process (e.g., who is/was involved in the review, analysis, and structuring).
17. Any contract analysis performed prior to execution.
18. Legal analysis of permissibility.
19. Project plan for the activity.
20. Description of how this crypto-asset activity fits into the bank's strategic plan and objectives of the board and actions that would be taken should the activity fail to achieve the objectives.
21. 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.
22. Policies and procedures that will govern the crypto-related activity, including those related to internal controls, consumer compliance, Anti-Money Laundering/Countering the Financing of Terrorism, and complaint resolution.
23. Board and committee minutes reflecting discussion, analysis, approval, and any documentation provided on the activity.
24. Organizational chart for the activity. Please include any expected staffing additions as a result of the activity, as well as support for any experience related to the activity among existing bank management or personnel.
25. Description of anticipated monitoring and/or auditing of the new activity.
26. Contingency or wind down plans.
27. Internal training materials related to the activity.
28. Insurance coverage of the activity.
29. Titling of any omnibus accounts maintained related to this product/service and records of ownership expected to be maintained.
30. Plans for the internal audit function, including the type of audits to be conducted, skillset of the auditors, and access to [REDACTED] auditors to complete the audit.

Financial

31. Bank's analysis of Securities and Exchange Commission Staff Accounting Bulletin 121 and its applicability.
32. Cost-benefit analysis for the activity.
33. Describe how the bank will segregate and identify crypto related balance sheet assets.

Customer and Disclosure

34. Customer agreements, disclosures, sample account statement, sample transaction receipt, and any other terms and conditions related to the activity (draft or proposed).
35. Description of any fees that will be charged to customers 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.
36. Description of any transaction limitations imposed by [REDACTED] or the bank on the transfer amounts.
37. Disclosures expected to be provided to customers on deposit insurance.

38. Marketing materials, press releases, internal scripts, educational materials, and any other publicly-distributed information (draft or proposed). This includes screen shots/recordings of the user interface that will be made visible to customer through the bank in connection with the activity.

Other

39. For [REDACTED] structure (including ownership and membership) and governing documents (such as operating agreement, operating rules, etc.).



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

May 25, 2023

Board of Directors



Subject: Additional Request for Information on [REDACTED] Implementation

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] and [REDACTED] to bank customers. The notification was provided pursuant to Financial Institution Letter (FIL)-16-2022, *Notification of Engaging in Crypto-Related Activities*. The FDIC received additional information from the bank on January 31, 2023, in response to our December 13, 2022 letter.

FDIC staff has reviewed the documents provided and determined that additional information is necessary to further evaluate the proposed activities. On March 21, 2023, the bank notified the FDIC of its intent to no longer proceed with [REDACTED]. As a result, FDIC staff will focus the review on the bank's implementation of [REDACTED].

Enclosed is a request for the additional information needed to continue the review of the proposed activities and provide appropriate feedback to the bank. A number of items previously requested were not provided in the bank's recent submission. Please follow up with the FDIC for any clarification that may assist the bank in responding to the requested items. Please provide the requested information no later than July 10, 2023.

The FDIC's February 17, 2023 letter requested that the bank not proceed with the planned activity until the FDIC completes its review and provides relevant supervisory feedback. Please notify us if there are any material changes in the planned service, the status of this project, or its planned implementation, as additional information may be requested to allow the FDIC to assess the safety and soundness, consumer protection, and financial stability implications.

This letter is confidential and may not be disclosed or made public in any manner under part 309 of the FDIC Rules and Regulations.

Board of Directors

- 2 -

May 25, 2023

If you have any questions, please contact Case Manager [REDACTED]
or [REDACTED] or Senior Review Examiner [REDACTED] or
[REDACTED]

Sincerely,
Gregory P. Bottone
Regional Director

Enclosure

cc: [REDACTED]
Federal Reserve Bank of Chicago

ATTACHMENT

Provide the following items for the [REDACTED] platform and related activities. Several items were previously requested in our letter dated December 13, 2022, as noted below.

Technical

- [REDACTED] software inventory.
- [REDACTED] infrastructure details that reflect various servers, back-ups, network connectivity, and databases.
- Detailed technical overview of interaction between bank, bank operating systems, APIs, and [REDACTED]
- Details related to storage of private and public key and related controls.
- Authentication details with respect to Auth0.
- Transaction flow diagram for intrabank transactions. The transaction flow previously provided reflects interbank transactions.
- Detailed description of the bank's role and functions related to the bank's control of the nodes.
- Detailed technical description of the consensus mechanism.
- Analysis supporting that the underlying blockchain technology is "in no way crypto-related," given that cryptography is a key feature of blockchain technology for validation of information and the use of tokens.
- Description of any upgrades or changes to existing systems to implement this activity.
- [REDACTED]

Operational

Risk Assessment

- Supporting documentation and/or written commentary for how the bank concluded on the likelihood and impact ratings of each risk, the effectiveness of each control, residual risk ratings, and overall risk rating.
- Additional analysis conducted with the risk assessment, if applicable.
- Description of the process of identifying risks included in the risk assessment.
- Expertise of staff performing the risk assessment.

Due Diligence Analysis

- All documents reviewed in the due diligence process, including but not limited to those detailed in the [REDACTED] Group Vendor Review Status Report dated May 26, 2022. *The associated due diligence documents were previously requested in our letter dated December 13, 2022.*
- All written analyses of the documents reviewed in the due diligence process, including rationale and support for the acceptable determinations on the vendor due diligence form. *Due diligence analysis was previously requested in our letter dated December 13, 2022.*

Contract and Contract Analysis

- Description of the purpose of the “Transaction Volume Fee” and “Token Deposit Fee,” including whether those fees compensate for gas fees.
- Documentation of the contract review, analysis, and assessment conducted by outside counsel and the team members of Digital Banking, Treasury Management, Commercial Banking, Legal, and Risk. *We previously requested any contract analysis performed prior to execution in our letter dated December 13, 2022.*

Legal Analysis of Permissibility

- Documentation of the legal analysis conducted to support that the activity is permissible under current laws and regulations, including 12 U.S.C. § 1831a and 12 CFR part 362. *This item was previously requested in our letter dated December 13, 2022.*

Project Plan

- Updated Project Plan and Implementation Plan.
- The Board Case Memo and Board Approval documents.

Strategic Plan

- Comprehensive discussion on the strategic goals and objectives of offering ██████████ to commercial customers, including what the bank expects to achieve with the new activity and how the platform will result in deposit growth.
- List of the target commercial customers and industries.
- Outline of specific actions the bank would take if the activity fails to achieve objectives. *This item was previously requested in our letter dated December 13, 2022.*

Policies and Procedures

- Written policies, procedures, and user guides that will govern ██████████. *We previously requested policies and procedures that will govern the crypto-related activity, including those related to internal controls, consumer compliance, AML/CFT, and complaint resolution in our letter dated December 13, 2022.*
- List of employees or third parties and their responsibilities, if not included in policies.
- Description of controls related to the program, including but not limited to controls for the admin and the reconciliation process.
- The bank’s written Cloud policy.

Accounting

- Description of balance sheet entries for transactions.
- Example general ledger entries for token creation, transfer of tokens, burning of tokens, and settlement of balances.
- Description of the accounting methods and treatment for the tokens. Explain if the bank’s external accountants have opined on the treatment.
- Explanation of how the ledger of the underlying omnibus account reconciles the ownership of deposits while customers transfer tokens amongst each other. For example, if Customer A sends \$100 in tokens to Customer B, but Customer B has not yet redeemed

the tokens for deposit into their DDA at the bank, who is the recorded owner of the USD in the omnibus account?

- Explanation of whether the bank confirmed with external auditors its conclusion that SEC Staff Accounting Bulletin No. 121 does not apply and any related documentation.

Board and Committee Minutes

- Documentation submitted to the [REDACTED] for approval, including the [REDACTED] implementation project memo.
- [REDACTED]
- [REDACTED]
- Documentation of any other discussion on [REDACTED] held by the [REDACTED]
- [REDACTED]
- Documentation of the Board's approval of [REDACTED]
- *We previously requested Board and committee minutes reflecting discussion, analysis, approval, and any documentation provided on the activity in our letter dated December 13, 2022.*

Organizational Chart

- Organizational chart for Treasury Management, Commercial Banking, Digital Banking, and Anti-Money Laundering team members that will be involved with [REDACTED]. *We previously requested an organizational chart for the activity in our letter dated December 13, 2022.*
- Clarification of whether existing bank management or personnel have experience related to the activity and details of the related experience. *We previously requested support for any experience related to the activity among management or personnel in our letter dated December 13, 2022.*
- Clarification of whether the full-time employees to be added to support [REDACTED] activities will be existing employees of the bank or if the bank will hire outside persons. Explain the expected roles and responsibilities of these employees.

Monitoring/Auditing

- Explanation of the existing monitoring and auditing processes which the new activity will fit within and whether new controls are being developed in the Anti-Money Laundering/Countering the Financing of Terrorism area.
- Details of the additional monitoring expected to be implemented after the UAT testing.
- Description of where [REDACTED] activities will be included in the audit plan.
- Expertise of [REDACTED] or any other firms the bank plans to utilize to review the product.

Contingency Plans

- Formal contingency or wind down plan for the activity. *This item was previously requested in our letter dated December 13, 2022.*
- Timeline for establishing a plan with [REDACTED] to facilitate the transfer of services.

Training

- Blockchain or other crypto-related training provided to bank personnel. Note who received the training and their respective department. *We previously requested internal training materials related to the activity in our letter dated December 13, 2022.*
- Training materials provided by [REDACTED]
- Any bank employee user guides that will be used to govern the daily operations of the activity, including guides for interactions with bank customers, such as scripts or frequently asked questions.

Insurance Coverage

- Details of the bank's current insurance coverage.

Financial

Cost-Benefit Analysis

- Explanation of the transaction fees per customer per year.
- Explanation of how total deposits translate to forecasted revenue for the bank.
- Supporting analysis for the "Total Deposits" amounts.

Customer and Disclosure

Customer Agreements/Disclosures

- Criteria for bank customers to become a [REDACTED] participant.
- Clarification of the "other Tokens" that businesses would be able to hold in their wallet.
- The Authorization and Execution Agreement, Business Deposit Account Agreement, and Business Online Banking Treasury Management Master Service Agreement. Clarify if these agreements are existing or new documents.
- Description of any error resolution procedures that will be followed by the bank if a transaction error is alleged by any bank user of the [REDACTED] platform.
- Address if delays can occur between authorization by the initiating customer's bank account to final settlement of funds in the customer's [REDACTED] that could result in an overdraft due to insufficient funds availability at the initiator's bank account
- Sample account statement or transaction receipt, if available. *This item was previously requested in our letter dated December 13, 2022.*

Fees Charged to Customers

- Statement of the bank's plan to charge fees to clients in the future.

Marketing and Other Materials

- Describe the select customers who will be invited to enroll in [REDACTED]
- Screen shots of the user interface that will be made visible to customers through the bank in connection with the activity, as well as admin screens. Also, we request a live demonstration of the user interface to review the customer experience through the online banking and/or mobile application platforms.
- Any other materials that will be provided to the customers invited to enroll in [REDACTED] such as guides or overview materials on how the product functions.



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

August 8, 2023

Board of Directors

Subject: Notification of Engagement in Crypto-Related Activities

Dear Members of the Board:

On September 28, 2022, the FDIC received the bank's notification of its intent to engage in crypto-related activities pursuant to Financial Institution Letter 16-2022, "Notification of Engaging in Crypto-Related Activities." The notification indicated that the bank proposed to partner with [REDACTED] and [REDACTED] which use blockchain technology.

The FDIC received additional information from the bank on January 31, 2023, in response to our December 13, 2022 letter. Subsequently, on February 17, 2023, the FDIC sent a letter to the Board requesting that the Bank refrain from providing [REDACTED] and [REDACTED] to its customers until the FDIC has completed a review of the activities.

The bank notified the FDIC of its intent to no longer proceed with [REDACTED] on March 21, 2023. As a result, the FDIC focused the review on the bank's implementation of [REDACTED] and requested additional information on May 25, 2023. Also, on June 27, 2023, the FDIC received the bank's notification of its intent to no longer partner with [REDACTED] to offer [REDACTED] to bank customers. The FDIC acknowledges the bank's updated status related to these activities, and the February 17, 2023 FDIC letter to the Board has been superseded as a result of the March 21, 2023 and June 27, 2023 communications to the FDIC. However, please notify our office if the status of this activity, or other crypto-related activity, changes in the future.

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] or [REDACTED] or Senior Review Examiner [REDACTED] or [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.

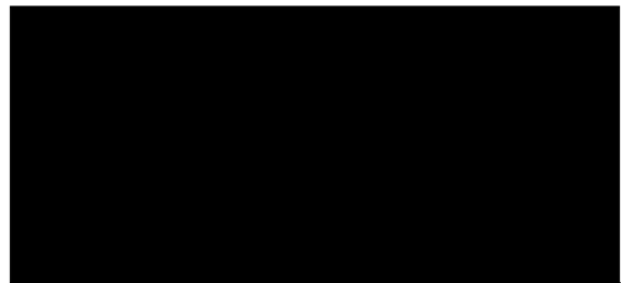
Sincerely,
 Gregory Bottone
 Regional Director

cc:

[REDACTED]
 Federal Reserve Bank of Chicago



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



Transmitted by Electronic Correspondence

December 29, 2022

[REDACTED]
President & COO



RE: Notification of Crypto-Related Activities

Dear [REDACTED]


On November 2, 2022, we received your response to the FDIC and [REDACTED] letter, dated October 17, 2022, requesting additional information regarding your institution's involvement with crypto-related activities (request letter). The last item in our request letter, which was only partially addressed in your response, stated "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." Your response to this item explained the purpose for purchasing NFTs but did not provide the requested independent legal analysis of the permissibility of the Bank acquiring and holding crypto-assets or the NFTs.

Consistent with our request, in the event the Bank believes the activity to be permissible, appropriate documentation should be established and maintained as described in Financial Institution Letter (FIL), FIL-54-2014, Filing and Documentation Procedures for State Banks Engaging, Directly or Indirectly, in Activities or Investments That Are Permissible for National Banks. Therefore, we are again requesting such documentation.

Please provide the Bank's legal analysis and supporting documentation of the permissibility of the Bank acquiring and holding crypto-assets and NFTs within 30 days of the date of this letter.

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

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 [REDACTED]. 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.




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Manager  and Division Chief Director 


Sincerely,

/s/ Kathy L. Moe

Kathy L. Moe
Regional Director
Federal Deposit Insurance Corporation



**Federal Deposit Insurance Corporation**

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

Transmitted by Electronic Correspondence

June 29, 2023

[REDACTED]
President & COO
[REDACTED]

RE: Notification of Crypto-Related Activities


Dear [REDACTED]

On February 27, 2023, we received your response to the FDIC and [REDACTED] letter, dated December 29, 2022, requesting additional information, including information previously requested on November 2, 2022, regarding your institution's involvement with crypto-related activities (collectively, request letters). Our request letters asked that the Bank provide its legal analysis and supporting documentation on the permissibility of the Bank acquiring and holding crypto-assets and non-fungible tokens (NFTs). Your response noted that the Bank did not view these purchases as investments but instead as immaterial marketing activities, similar to acquiring art for a branch. Your response also stated that after exploring the potential activity, the Bank concluded not to engage and ceased all activities associated with crypto-assets and NFTs. Nonetheless, the Bank continues to hold the crypto-assets and NFTs. The Bank concluded that Part 362 of the FDIC Regulations did not apply, and therefore, an independent legal analysis of permissibility was not obtained.¹



Financial Institution Letter (FIL), FIL-54-2014 - Filing and Documentation Procedures for State Banks Engaging, Directly or Indirectly, in Activities or Investments That Are Permissible for National Banks, describes how a state bank seeking to engage in an activity permissible for a national bank can maintain supporting documentation in its files. Such documentation is subject to examination by the FDIC.

¹ Part 362 of the FDIC Rules and Regulations implements section 24 of the Federal Deposit Insurance Act (12 USC 1831a). Subpart A to Part 362 restricts and prohibits insured State banks and their subsidiaries from engaging in activities and investments that are not permissible for national banks and their subsidiaries.




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 [REDACTED]. 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.


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Please provide the supporting documentation and information listed below within 30 days of the date of this letter.

- A legal analysis and supporting documentation on the permissibility of the Bank acquiring and holding each crypto-asset and NFT.
- Clarification on whether the Bank continues to use the NFTs for marketing. If the Bank continues to use the NFTs for marketing, provide documentation on how they are used, what platforms are used, what groups are targeted, if any, and when or how often they are used. If applicable, in light of 
 how will NFTs be used for marketing?
- Clarification on why the bank continues to hold crypto-assets and NFTs in light of the Bank's response that explains why the Bank obtained them, that the Bank concluded not to engage in the potential activity, and that they "ceased all activities associated with cryptocurrency and NFTs."
- A risk assessment and due diligence for the crypto-assets and the NFTs.

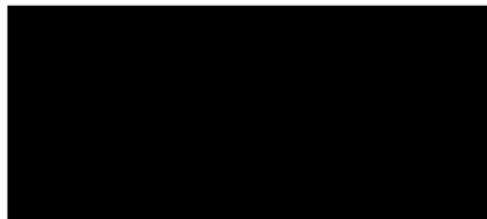
Alternatively, the Bank may also provide a divestiture plan in lieu of this analysis, as we note in your response that the Bank has decided to not pursue further activity and has since ceased all activities associated with crypto-assets and NFTs, with no intention of acquiring new crypto-assets or NFTs.

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  and Division Chief Director 


Sincerely,

/s/Kathy L. Moe

Regional Director
Federal Deposit Insurance Corporation





Federal Deposit Insurance Corporation

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



Transmitted by Electronic Correspondence



October 11, 2023


President & COO



RE: Notification of Crypto-Related Activities

Dear Ms. Williams:

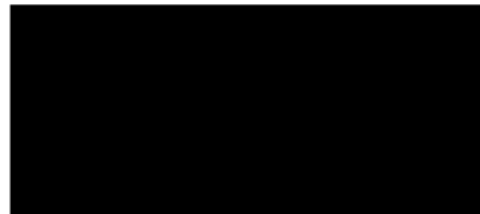
We acknowledge receipt of your August 10, 2023 response to our June 29, 2023 letter regarding crypto-related activities. We understand that  intends to divest of all crypto-related assets and non-fungible tokens (NFTs) by December 31, 2023, and will provide confirmation of the transaction to the FDIC and  as soon as it has been executed. Thank you for your response, and we look forward to your transaction confirmation.


Questions should be directed to FDIC Case Manager  and Division Chief Director 

Sincerely,

/s/ Paul Worthing

Regional Director
Federal Deposit Insurance Corporation



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 . 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.

**Federal Deposit Insurance Corporation**

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

Transmitted by Electronic Correspondence

June 24, 2024

[REDACTED]
President & Chief Operating Officer
[REDACTED]

RE: Notification of Crypto-Related Activities

Dear [REDACTED]:

The FDIC acknowledges the notification provided by [REDACTED] (the Bank) on July 8, 2022, regarding the Bank's purchase and holding of crypto-related assets and non-fungible tokens (NFTs). The notification was provided pursuant 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.

On October 17, 2022, the FDIC responded to the Bank's notification with questions requesting additional details; on November 1, 2023, the Bank provided additional details; on December 29, 2023, the FDIC requested additional clarification; on February 27, 2024, the Bank provided a response; on June 29, 2024, the FDIC requested additional clarification; and on August 10, 2024, the Bank provided the additional clarification requested.

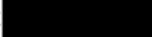


In a letter dated May 9, 2024, you provided the FDIC with documentation reflecting the divestiture of the Bank's crypto-related assets and non-fungible tokens (NFTs). The documentation exhibited that the Bank has divested of its [REDACTED] and the NFT to [REDACTED].

[REDACTED] The FDIC acknowledges the Bank's updated status related to this activity.

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 [REDACTED]. 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.


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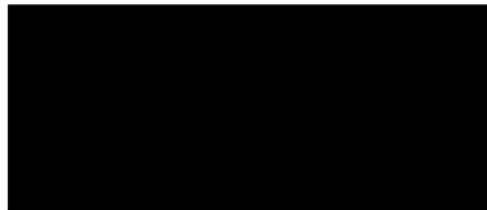
With regard to the Bank's July 8, 2022 notification, pursuant to FIL-16-2022, the FDIC's review is now officially complete. We request that the Bank notify this office if the status of this activity, or other crypto-related activity, changes in the future.

We are pleased that Financial Data Analytics Data Scientist  was able to provide assistance on this matter. This letter is confidential and may not be disclosed or made public in any manner pursuant to Part 309 of the FDIC Rules and Regulations (12 CFR Part 309). Questions should be directed to FDIC Case Manager  and Division Chief Director .

Sincerely,

/s/ Paul P. Worthing

Regional Director
Federal Deposit Insurance Corporation





Federal Deposit Insurance Corporation

25 Jessie Street at Ecker Square, Suite 2300
San Francisco, California 94105

CONTROLLED//FDIC BUSINESS

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

Sent via secure email

August 10, 2023

Board of Directors

Subject: Crypto-Related Activities Supervisory Feedback Letter (Letter)

Dear Members of the Board:

On March 22, 2022, [REDACTED] (bank) notified the FDIC of its crypto-related activity proposal via a [REDACTED]. The FDIC issued Financial Institution Letter (FIL), FIL-16-2022, *Notification of Engaging in Crypto-Related Activities* on April 7, 2022. 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. FIL-16-2022 stated that 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 crypto-related activities.

On May 4, 2022, the bank provided notification of its plan, through an arrangement with [REDACTED] and [REDACTED], to offer deposit customers the ability to buy, sell, and hold Bitcoin using the [REDACTED] Bitcoin Trading Platform (the Platform) directly through the bank’s online banking services.

On May 31, 2022, the FDIC and the [REDACTED] started a joint full-scope Safety and Soundness examination. During the examination, on June 15, 2022, bank management met with the examiners, who presented an additional information request list to bank management. The bank also provided a live demonstration of the crypto-related activity that reflected the bank had moved into the test phase and the purchase and sale of Bitcoin through the Platform was available to bank employees. On July 27, 2022, the FDIC sent a letter to the bank’s Board of Directors asking them to refrain from expanding the crypto-related activity to bank customers until the FDIC reviewed outstanding concerns related to safety and soundness and consumer protection and provided supervisory feedback to the bank. On September 20, 2022, bank management provided additional documentation and responses in regard to FDIC follow-up questions submitted on August 22, 2022.

Board of Directors
Crypto-Related Activity
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We understand that, as discussed, since the completion of our review, [REDACTED] has determined to terminate the contract; the feedback can help inform the bank's third party risk management practices.

The remainder of this Letter contains supervisory feedback resulting from the FDIC's review of the bank's arrangement with [REDACTED] and [REDACTED]. The scope of this review includes an assessment of the information provided by bank management to date related to this proposed crypto-related activity.

BACKGROUND

Crypto-related activities may pose safety and soundness and consumer protection risks to the institution and its customers. The *Joint Statement on Crypto-Asset Risks to Banking Organizations* (Joint Statement), issued by the FDIC, the Board of Governors of the Federal Reserve System, and the Office of the Comptroller of the Currency on January 3, 2023, may also serve as a useful resource for the Board and management regarding crypto-asset risks. Events of the past year across the crypto-asset sector have been marked by significant volatility and have exposed vulnerabilities in the sector. These events highlight a number of key risks associated with crypto-assets and crypto-asset sector participants that banking organizations should be aware of, including those outlined in the Joint Statement. The types and levels of risks are dependent on the type of activity, implementation of the activity, and controls designed to mitigate the risks. Examples of risks that may be present include compliance, legal, operational, third party, and strategic. Facilitating customer crypto-asset trading alongside traditional banking products and services may also present heightened risk to the bank's customers, including:

- Confusion about the role of the bank in the crypto transactions;
- Lack of understanding about the nature and risks associated with crypto-asset products;
- Inability to differentiate between the nondeposit products and traditional banking products, such as deposit accounts; and
- Misunderstanding the applicability of federal deposit insurance coverage.

Part 328, subpart B of the FDIC's Rules and Regulations, titled "False Advertising, Misrepresentation of Insured Status, and Misuse of the FDIC's Name or Logo," applies to any person, including non-banks, such as crypto-asset companies. (See 12 CFR part 328, subpart B.) Accordingly, the bank should determine if its vendor management policies and procedures effectively manage crypto-related risks, including compliance risks related to part 328, subpart B. In addition, the FDIC's *Advisory to FDIC-Insured Institutions Regarding FDIC Deposit Insurance and Dealings with Crypto Companies*, issued on July 29, 2022, may also serve as a useful resource for the board and management regarding risks and concerns arising from crypto-assets offered by, through, or in connection with, insured depository institutions.

SUPERVISORY FEEDBACK SUMMARY

Given the unique nature and evolving risks associated with the bank's role in offering the Platform alongside existing bank deposit products, management should perform a robust risk assessment, a comprehensive contract review, and rigorous vendor due diligence prior to offering this new service to customers. The Board should ensure appropriate policies and procedures are in place to govern the activity, including ongoing monitoring requirements, appropriate oversight of management and staff responsible for the Platform, and provide approvals with due consideration of necessary assessments and analyses, in accordance with bank governance procedures.

Further, while the bank has some Compliance Management System (CMS) controls in place to evaluate the risks applicable to this crypto-asset service, Board and management did not fully enhance the CMS to sufficiently consider and mitigate consumer compliance risks involved with facilitating customer crypto-asset trading alongside traditional banking products and services. The Board should enhance the CMS to ensure the risks of consumer harm from the crypto-asset service are appropriately identified and mitigated. Failure to enhance the CMS could result in consumer confusion about the nature and risks associated with crypto-assets and result in consumer harm.

RISK MANAGEMENT SUPERVISION

Board Oversight

Increased Board oversight is needed prior to the Platform being fully launched. A [REDACTED] Policy (Policy) has been drafted but not yet approved by the Board. However, the Board has not established and documented areas such as ongoing monitoring requirements, performance criteria, and reporting needs that will assist with the governance and risk management of this service. In addition, the Board is not fully informed about the potential risks associated with the proposed new service due to weaknesses in the risk assessment and vendor due diligence process. The Board should ensure policies and procedures are sufficient, and that management performs appropriate risk assessments and due diligence in accordance with the policies and procedures. Discussions of the service, including the Board's assessment and approval of the service, review and approval of the risk assessment, vendor due diligence, and contracts should be documented in the Board minutes. Failure to effectively oversee the implementation of the Platform may lead to ineffective controls to oversee both risk and consumer compliance areas.

Policies and Procedures

The draft Policy lacks clarity on several areas that require attention before the Policy is approved.

Board of Directors
Crypto-Related Activity
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- The draft Policy does not provide a governing framework, e.g., the coverage and scope of risk assessment, due diligence, contract review, and ongoing monitoring.
- The draft Policy reflects a lack of understanding of the bank's role in conjunction with the contracts with [REDACTED]. Specific concerns are noted regarding references to Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT), as there are discrepancies between the related [REDACTED] contracts and draft bank policies. For example:
 - The draft Policy (see [REDACTED]) states that [REDACTED] is responsible for AML/Know Your Customer (KYC) transaction screening; however, a [REDACTED] contract schedule reflects that the bank is responsible, noting that the "[REDACTED]" [REDACTED] These documents create confusion as to the responsible party for KYC.
 - The draft Policy (see [REDACTED]) states, "[REDACTED]" [REDACTED] However, as noted above, the contract schedule notes that the bank is responsible for transaction screening. Bank management states that there is no tri-party agreement. There are only agreements between [REDACTED] and [REDACTED] and between [REDACTED] and [REDACTED]. Accordingly, the respective roles and responsibilities of the bank, [REDACTED], and [REDACTED] are unclear with respect to AML/KYC.
- The draft Policy also does not reflect or establish guidelines surrounding the bank's responsibilities, such as marketing, customer service, customer complaint process, AML/KYC, settlement, Information Technology (IT) solution, delivering disclosures and agreements, etc.
- The draft Policy (see [REDACTED]) notes a daily aggregated transaction limit per customer of [REDACTED] which appears somewhat arbitrary. Bank management indicated that the limit was established primarily based on limits provided by other crypto exchanges. Unsupported transaction limits are not designed to protect customers and the bank from increasing crypto-related activity fraud.
- The draft Policy (see [REDACTED]) states, "[REDACTED]" [REDACTED] However, the trade confirmation lists [REDACTED] Bank and includes bank contact information. Because the bank is identified as the designated point of contact for customer service inquiries, bank customers may perceive the bank, as much as [REDACTED], as the responsible party if issues do arise.

Lastly, the bank's Vendor Management Policy does not provide specifics for this Platform's unique type of activity/service. The Board should review and determine whether the scope of the Vendor Management Policy is sufficient for this activity, and if not, provide additional criteria that must be considered prior to engaging in a relationship with [REDACTED].

Failure to construct policies and procedures to oversee this Platform could lead to various oversight weaknesses that may go undetected, exposing the bank to increased financial and consumer compliance risk.

Risk Assessments

Management's risk assessment process for the Platform is not comprehensive and should be re-evaluated. Management has developed the following three documents to assess risks related to crypto-asset activities: a Residual Risk Questionnaire; an Inherent Risk Questionnaire; as well as the Crypto Exchange Memorandum used by the Board. While a variety of risks are considered, bank management and the Board should revisit a number of areas to enhance each of the documents.

Inherent/Residual Risk Questionnaires

The questionnaires are not effective at assessing inherent and residual risks and lack the following considerations:

- The questionnaires do not influence the formal risk assessment process.
- The questionnaires do not adequately identify or measure risk using qualitative and quantitative methods.
- The questionnaires lacked analysis on a variety of areas such as legal and contract risk, which are further discussed below.
- The questionnaires have not been assigned any measurable risk levels to the various categories analyzed and lack consideration of any controls or mitigating factors; thus, it is unclear how the level of inherent and residual risk is determined.

For the questionnaires to be effective at identifying, measuring, monitoring, and controlling risks, bank management should assign inherent risk levels, identify mitigating controls, and determine residual risk levels.

Cryptocurrency Exchange Memorandum

The Board reviewed an internally-prepared Cryptocurrency Exchange Memorandum (Memorandum) on November 29, 2021. The Memorandum states that the risks associated with the service include KYC, personally identifiable information, money laundering, custodian, legal, and reputational. However, the Memorandum includes only brief statements summarizing the risks and does not represent a formal risk assessment of the service being considered.

Management should develop a distinct and comprehensive formal risk assessment for this service that includes a detailed and thoroughly documented assessment of all risks and mitigating controls for the Board to understand and evaluate prior to approving the launch of the Program.

Management and the Board did not adequately consider or document the following items during the risk assessment process:

- Third-party contract risk, including potential bank liability arising from the contract, and mitigating controls
- Potential new customer growth as a result of offering this product, associated deposit growth, and potential impact on the bank's capital planning and liquidity risk management
- Potential legal and compliance risks from facilitating customer purchases of a rapidly evolving and highly volatile asset and the risk of customer confusion of the bank's role, as the crypto-assets can only be purchased, sold, or accessed through the bank by a service available through a non-bank, third-party provider
- Potential legal risks related to permissibility. The assessment of legal risk is entirely dependent on [REDACTED] and does not address the fact that legal permissibility of the activity and application of Federal banking laws and regulations to the Bitcoin Exchange Services has not yet been fully determined.
- Potential risks related to the operations and financial condition of [REDACTED] and/or related affiliates
- The bankruptcy remoteness of the crypto-assets held in custody for customers by [REDACTED] and its affiliates
- If management chooses to exit this activity, risks and potential bank liability of winding down and exiting this service

To address the concerns noted above, management must implement a comprehensive risk framework with accompanying controls that provide for an effective risk assessment of this service pursuant to Appendix A to Part 364 of the FDIC Rules and Regulations, *II. Operational and Managerial Standards*. A comprehensive risk assessment would allow management to appropriately identify potential enterprise-wide risks, as well as the risk of consumer harm, which would enable management to ensure that such risks are sufficiently mitigated. The Board must ensure that an appropriate risk assessment framework with accompanying controls are commensurate with the nature of existing and evolving safety and soundness and consumer protection risks specific to crypto-assets.

Information Technology and Information Security (IS) Risk

According to the documents submitted, access to the Platform will be provided through the bank's E-banking platform [REDACTED]. As a result, authentication controls to access [REDACTED] would be in place through the bank's E-banking platform. Users would be authenticated through user identifications and passwords that meet the [REDACTED] standards and parameters. According to Chief Risk Officer [REDACTED], all data shared from the E-banking platform with [REDACTED] is encrypted. Although management has considered some IT- and IS-related risks in relation to the bank's arrangement with [REDACTED], management has not completed a formal information security risk assessment. Management should complete and document this assessment in order to achieve optimal security, provide an analysis of the potential threats and vulnerabilities to the bank's IT

systems, evaluate risks to customer data and privacy, and establish steps to reduce such risks to an acceptable level. Management is also reminded to adhere to internal policies/procedures when granting third parties access to their banking platform.

Vendor Due Diligence

Management's vendor due diligence review analysis of related documents is limited and requires further development. Management has collected various documents on [REDACTED] including, but not limited to, the following: financial capacity, legal analysis, platform terms and conditions, AML, Office of Foreign Assets Control, consumer protection disclosures/notification procedures and fee structures. However, there is no documentation concerning the bank's analysis of these and other documents, including how these documents influenced the bank's risk assessments.

The Board should ensure that management conducts and documents a thorough analysis of the vendor's business experience and qualifications, current financial condition (specific to legal entities the bank is engaging with, the vendor's affiliates that the bank is relying on, and any financial strength provided by the vendor's parent or related companies), legal and regulatory compliance, risk management and controls, information security, and operational resilience. Moreover, as policy issues continue to change, and given the recent volatility in crypto-assets, the Board should ensure that management periodically monitors the third party and its impact on the bank and customers. Fully assessing and documenting a new vendor will better inform the Board and management of the risks associated with the vendor, the bank's ability to manage and mitigate those risks, and the vendor's ability to provide a service to the bank's customers.

COMPLIANCE MANAGEMENT SYSTEM (CMS)

The risk for customer confusion is especially present due to the Platform, which is a nondeposit product, being accessible to customers only through the bank's existing online banking platforms where FDIC-insured deposit products are also accessible. Management did not sufficiently enhance the CMS to include consumer compliance considerations related to the [REDACTED] service.

The CMS exhibits certain weakness specific to the oversight of the bank's third-party relationship with [REDACTED]. Sufficient consumer compliance-related risk assessment, due diligence, and monitoring plans have not been performed or developed. The following section details the consumer protection risks and the weaknesses in the bank's supervision of its third-party relationship with [REDACTED].

Consumer Compliance Related Risk Assessments

Management's process to assess consumer compliance risks related to the Platform is not comprehensive and should be enhanced. Although management created an inherent risk

questionnaire and a residual risk questionnaire, the questionnaires are very limited in regards to consumer protection risks and do not inform the formal risk assessment.

Management completed an Inherent Risk Questionnaire on the prospective vendor arrangement with [REDACTED], but, it does not sufficiently address the types of risk this Platform may present to the bank and its customers. These risks include, for example, consumer confusion about the nature of, and risks associated with, crypto-assets, and the possibility of omissions or inaccurate disclosures that could result in consumer harm. The Inherent Risk Questionnaire asks management to list applicable regulations; however, the list of regulations does not include *Unfair or Deceptive Acts or Practices* under Section 5 of the Federal Trade Commission Act (UDAP), *Electronic Funds Transfer* (Regulation E), or FDIC Part 328 *Advertisement of Membership, False Advertising, Misrepresentation of Insured Status, and Misuse of the FDIC's Name or Logo* (FDIC Part 328). For example, in assessing potential risks related to Part 328, the bank should consider the restrictions on using the official advertising statement when advertising nondeposit products and the prohibitions against misrepresentations about deposit insurance and the misuse of the FDIC's name or logo, with respect to representations regarding Bitcoin. The Inherent Risk Questionnaire rates the inherent risk of noncompliance as "[REDACTED]" because exposure may result in nominal fines or non-monetary penalties; but, it does not provide any detail on the types of concerns with the vendor that were contemplated or assessed to reach this conclusion.

The Inherent Risk Questionnaire is accompanied by a Residual Risk Questionnaire that similarly lacks sufficient detail on consumer compliance considerations. The Residual Risk Questionnaire states that the residual compliance risk is "[REDACTED]"; however, it does not include any analysis of mitigating consumer protection controls or supporting details to explain or justify the residual risk rating.

Consumer Protection Due Diligence

The bank's consumer protection due diligence for the new [REDACTED] service is also insufficient and requires further development. While the bank's consumer protection due diligence included a review of [REDACTED]'s policies for complaint resolution and advertising controls, management's due diligence did not include sufficient analysis of the disclosures and customer experience when enrolling for and using the Platform. For example, bank management has not sufficiently reviewed the compliance disclosure's communication of the nature and risk of the Platform to assess the risk for customer confusion regarding the bank's role in the crypto-asset transactions.

The Platform's layout and design may contribute to customer confusion. The bank's customers will access the Platform by selecting the "Bitcoin" option from the online banking interface menu, which is listed between multiple deposit-account-related features, such as "Transactions" and "[REDACTED]". The design similarities and overall placement make the crypto-asset product appear to be another feature of a traditional deposit account. This creates the potential for customer confusion if disclosures do not clearly and conspicuously differentiate the

Platform and Bitcoin from FDIC-insured bank deposit products.

During the enrollment process, customers are presented with information and disclosures surrounding the service prior to being able to buy or sell Bitcoin using an existing bank demand deposit account. During this process, customers are presented with the Bitcoin Trading Platform Terms & Conditions (terms and conditions) and embedded E-Sign Consent and Privacy Policy. These terms are shown electronically to customers and include information that the product is not insured by the FDIC and is subject to risk, including possible loss of value. However, there is no disclosure of the risks that Bitcoin balances are not deposits or other obligations of the institution and are not guaranteed by the institution. Further, the bank does not prominently disclose that a customer's access to their crypto-asset account may be suspended by . This would prevent customers from completing orders or other crypto-related actions on the bank's online banking service, which is the only method that customers can access or submit orders to . In instances of market turmoil or declining prices, the inability to sell could amplify customer losses.

During the enrollment process, customers are not required to scroll through the entire legal disclosure before accepting the terms and conditions, and are not receiving information about the nature and risks of this product in simple plain language that they must affirmatively acknowledge. Therefore, it is possible for a customer to agree to the terms and conditions without understanding the bank's role and the risks related to nondeposit products.

In the various other electronic pages that the customers are presented with during the enrollment process, and when subsequently accessing the Platform or viewing the Bitcoin Balance through the Bitcoin widget, some information is presented on the nature and risks related to the Platform. The disclosure that states " ,” is consistently presented, but information on the risks related to the Platform is inconsistently presented, and the placement, format, and timing of such language is not always clear and conspicuous. This includes, but is not limited to, the risk of customer confusion that Bitcoin is not insured by the FDIC; not a deposit or other obligation of, or guaranteed by, the depository institution; or subject to risks, including possible loss. The following include some noted examples where the bank did not present clear and conspicuous information on risks of the Platform and suggested measures to consider:

- The “ ” and “ ” pages state or imply information about the potential benefits of Bitcoin without disclosing the potential risks of purchasing this nondeposit product. In addition to information about the potential benefits, the Bank may also wish to consider including information about the risks related to the transaction, which may help minimize customer confusion related to the insured status of the activity.
- The customer acknowledgement page for the various Platform terms and conditions states that “ ” does not make any recommendations regarding buying or selling of Bitcoin; but, the Platform does not contain any information indicating that the bank is not endorsing or recommending Bitcoin. This may help ensure clear and conspicuous disclosures to consumers regarding the nature and risks associated with these services.

- The confirmation page presented prior to the customer initiating a purchase or sale of Bitcoin does not include any disclosures related to the risks prior to submitting the transaction. The Bank may also wish to consider including information about the risks related to the transaction, which may help minimize customer confusion related to the insured status of the activity.
- The sample transaction receipts, which confirm the purchase or sale of Bitcoin, include the bank's name, logo, and contact information for customer service inquiries; but, the receipts do not disclose any information about the risks related to the transaction. The Bank may also wish to consider including information about the risks related to the transaction, which may help minimize customer confusion related to the insured status of the activity.

Also, certain electronic pages displayed to customers using the Platform use inconsistent terminology from the terms and conditions. The following examples of such inconsistencies further evidence weaknesses in bank management's due diligence review:

- The pages presented to customers during buy and sell transactions show the "bitcoin." The term "value" is inconsistent with the terms and conditions, which use the word "price." The terms and conditions define "price" to be inclusive of [REDACTED]'s calculated market value and added spread, which is presented to customers on the buy/sell pages.
- The Bitcoin Home Page uses the term "Bitcoin Account Value" instead of the term "Balance," which is the term used in the terms and conditions. The distinction is material because "Balance" informs the customer that the displayed dollar amount includes both the pending balance and settled balance.

In addition, the minimum and maximum daily Bitcoin transaction limits are not clearly disclosed in the terms and conditions or other disclosures presented to bank customers. The information provided by bank management states that customers can select any amount between [REDACTED] when purchasing Bitcoin. The bank's internal procedure, titled Bitcoin Trading Platform Job Aid, states that there is a buy limit of \$[REDACTED] per transaction and a [REDACTED] daily limit. However, the terms and conditions that are provided to customers only disclose the [REDACTED] buy limit per transaction.

Ongoing Monitoring of Consumer Protection Risk

The bank's plan for the ongoing monitoring of Bitcoin-related consumer protection risk is insufficient and requires further development. The bank did not provide any information about the scope and frequency of the ongoing monitoring of consumer protection risk for the Bitcoin service. The development and implementation of a risk-based ongoing monitoring program is necessary to ensure consumer protections are effectively managed, including those related to UDAP and FDIC Part 328.

Consumer Protection Supervisory Feedback Summary

The following supervisory feedback will strengthen the bank's CMS and includes measures that may help ensure clear and conspicuous disclosures to consumers regarding the nature and risks associated with the [REDACTED] crypto-asset service:

- Ensure that sufficient CMS controls are in place to identify, evaluate, and appropriately mitigate the risks of consumer applicable to the crypto-asset service that is offered alongside traditional banking products and services. Failure to implement an enhanced CMS could result in consumer confusion about the nature and risks associated with crypto-assets, including potential consumer harm.
- Consider providing customers with clear and conspicuous disclosure on the nature of, and risks associated with, the platform. The Interagency Statement on Retail Sales of Nondeposit Investment Products (Interagency Statement) may be a useful resource for bank management to enhance the risk assessment process and provide language to customers on the nature and risk associated with the platform in a manner that:
 - Neither misleads, nor confuses, or is likely to mislead, the institution's customers about the role of the institution in facilitating its customers' transactions with crypto-assets provider [REDACTED], or the institution's endorsement of such products or services.
 - Minimizes the possibility of customer confusion between the protections afforded to the institution's FDIC-insured deposit accounts and non-insured products.
 - Provides clear and complete information on the possible loss of value associated with the [REDACTED] service.
- Consider providing customers with a notification when they are leaving the area of the bank's online banking platform that displays bank products and services and are entering an area that displays [REDACTED] products and services. The bank may wish to consider including a unique acknowledgement page during enrollment, and subsequently when accessing the service, that prominently states that the customer is leaving the area of the online banking platform that displays the bank's products and services and entering the area that displays [REDACTED] products. This page could include clear warnings about potential risks to the consumer and that the bank does not endorse or recommend the Bitcoin services that customers can access through the bank's online-banking platform. During enrollment, the Bank could consider whether customers be asked to affirmatively acknowledge that they have read and accepted these simple plain language statements regarding the risks as presented.
- Ensure all buy and sell order limits, such as minimum, maximum, and daily, are clearly disclosed to customers and are reflective of actual practices.
- Ensure that the terminology used to communicate with customers is consistent. The terminology should be consistent across the Platform, in Platform-related terms and conditions, or other Platform-related disclosures and communications, including advertisements, customer-facing images, disclosures within the online portal, as well as any oral communication with customers.

Board of Directors
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- Implement a risk-based ongoing monitoring program that includes a review of consumer protection risks for the [REDACTED] service. The ongoing monitoring program should enable management to ensure that the crypto-asset services meet all of the bank's consumer protection responsibilities, including those related to UDAP and FDIC Part 328. Management should develop and implement procedures to monitor [REDACTED] platform updates and changes to [REDACTED]'s service offerings, including disclosures, terms and conditions, transaction limits promotions and bonuses, and any other customer facing materials that could create customer confusion or customer harm prior to implementation and periodically thereafter.
- Consider providing additional warnings that further clarify other risks involved in using the Platform, such as that [REDACTED] may suspend customer access to the service and prevent customers from completing orders or other crypto-related actions on the bank's application.

MEETING WITH BANK MANAGEMENT

Examiners met with bank management on August 4, 2023 to discuss a number of the findings disclosed in this letter. Representing the FDIC was Case Manager [REDACTED], Consumer Compliance Technology Specialist [REDACTED], Senior Examiner [REDACTED], and Supervisory Examiner [REDACTED]. Representing the bank was Chief Financial Officer [REDACTED], Head of Digital Banking [REDACTED], Chief Risk Officer (CRO) [REDACTED] and General Counsel [REDACTED]. Representing the [REDACTED] [REDACTED] was Portfolio Manager [REDACTED].

During the meeting, management was receptive to the findings and noted that at this point a crypto-related activity proposal was not being considered by the bank. CRO [REDACTED] noted that the regulators might not have had the whole picture of the bank's review process, as examiners only reviewed a segment of the bank's material. CRO [REDACTED] said that, as requested, a formal response to the Letter from the Board would be provided to the FDIC.

CONFIDENTIAL NOTICE

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). Please notify the FDIC immediately if you receive a subpoena or other legal processing calling for the production of this letter or a description of its content.

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ACTION REQUESTED

Given the status of the [REDACTED] initiative, we request the Board review this Letter at their next meeting, document their review in the minutes, notify us of any material changes in the status of the program, and provide a written response within 45 days of receipt of this Letter. If you have any questions, please contact RMS Assistant Regional Director Jaclyn V. Valderrama at [REDACTED], RMS Case Manager [REDACTED] at [REDACTED], DCP Assistant Regional Director Matthew Sheeren at [REDACTED], or DCP Compliance Technology Specialist [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 on how to use secure email and FAQs about the service can be found at <https://www.fdic.gov/securemail/>.

Sincerely,

/s/Kathy L. Moe

Kathy L. Moe
Regional Director



Federal Deposit Insurance Corporation

25 Jessie Street at Ecker Square, Suite 2300
San Francisco, California 94105

CONTROLLED//FDIC BUSINESS

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

Sent via secure email

November 2, 2023

Board of Directors
[REDACTED]

Subject: Crypto-Related Activities Supervisory Feedback Letter (Letter)

Dear Members of the Board:

The FDIC acknowledges the notification provided by [REDACTED] (bank) dated May 4, 2022, regarding the bank's plan to offer deposit customers the ability to buy, sell, and hold bitcoin using the [REDACTED] directly through the bank's online banking services. The notification was provided pursuant 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 also acknowledge that prior to that, on March 22, 2022, the bank notified the FDIC of its crypto-related activity proposal [REDACTED]. The FDIC requested information necessary for us to assess the safety and soundness, consumer protection, and financial stability implications of the proposed activities as part of the May 31, 2022, FDIC and [REDACTED] joint examination. On July 27, 2022, the FDIC sent a letter to the bank's Board of Directors asking them to refrain from expanding the service to its customers until we completed our review. On August 10, 2023, the FDIC provided supervisory feedback to the bank relative to the activities your institution was considering to pursue.

In a letter dated October 4, 2023, President and Chief Executive Officer [REDACTED] stated that the bank has decided not to pursue the crypto-related initiative at this time. The FDIC acknowledges the bank's updated status related to this activity. As a result of the bank's October 4, 2023 communication to the FDIC, the July 27, 2022 FDIC letter to the Board has been superseded. We request that the bank notify our office if the status of this activity, or other crypto-related activity, changes in the future.

If you have any questions, please contact Risk Management Supervision (RMS) Assistant Regional Director Jaclyn V. Valderrama at [REDACTED], RMS Case Manager [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. 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]
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[REDACTED], Depositor and Consumer Protection (DCP) Assistant Regional Director
Matthew Sheeren at [REDACTED], or DCP Compliance Technology Specialist [REDACTED]
[REDACTED].

Sincerely,

/s/ Louis C.C. Cheng

Louis C.C. Cheng
RMS Acting Deputy Regional Director

/s/ Dana Crutchfield

Dana Crutchfield
DCP Deputy Regional Director



Federal Deposit Insurance Corporation
Divisions of Risk Management Supervision and
Depositor and Consumer Protection
300 South Riverside Plaza, Suite 1700
Chicago, IL 60606
Telephone: (312) 382-7500
FAX: (312) 382-6901



September 16, 2022

Board of Directors



Subject: April 25, 2022 Report of Examination (Report)

Members of the Board:

We have enclosed the subject Report prepared jointly by the Federal Deposit Insurance Corporation (FDIC) and the [REDACTED]. The Report includes the findings of the concurrent Information Technology, Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT), and Trust examinations, as well as the findings from the concurrent visitation by the FDIC Division of Depositor and Consumer Protection (DCP) to review the new cryptoasset service. Each director should thoroughly review the Report and acknowledge this review by signing the Signature of Directors page form included at the end of the Report. Please keep the signature page with the Report and record the Board's review in the minutes.

The Examination Conclusions and Comments page contains the bank's component and composite ratings. The composite rating is described on the inside front cover of the Report. The ratings, the contents of the Report, and this letter are subject to the confidentiality restrictions of part 309 of the FDIC Rules and Regulations, and of [REDACTED].

The Report indicates the bank's condition is [REDACTED]. However, the bank's risk profile has increased due to the implementation of a new cryptoasset service that allows customers to buy, sell, and hold Bitcoin through a third party. The bank's risk management program did not appropriately identify, quantify, and mitigate the risks associated with the new service. The Report includes a Matter Requiring Board Attention (MRBA) related to the cryptoasset service. The following MRBA contains material issues and recommendations that warrant the Board and management's immediate action, as these weaknesses could increase the bank's risk profile or adversely affect its financial condition if not corrected.

- Cryptoasset Service: The Board should ensure that management conducts a robust assessment of the customer cryptoasset service to appropriately identify, quantify, and document potential risks, particularly the risk of consumer confusion. Without a robust

risk management framework, the Board may fail to provide sufficient attention to ensuring the adequacy of mitigating controls to address risks related to this service. An effective risk management framework needs to include a comprehensive risk assessment that appropriately identifies potential enterprise-wide risks, including the risk of consumer harm; a thorough vendor due diligence analysis; appropriate Board oversight; and a comprehensive compliance management system (CMS) to account for and mitigate the consumer compliance risks.

The Board needs to ensure that these matters are fully addressed to effectivity mitigate risk to the institution and consumers. The Board also needs to remain vigilant for evolving interpretations of or changes in laws, regulations, and policies relating to cryptoassets, including evolving regulatory interpretations. The FDIC and [REDACTED] will monitor the Board and management's actions towards addressing the MRBA until they are satisfactorily resolved. Once the determination is made and communicated that the MRBA are resolved, the Board may move forward with offering the new cryptoasset service beyond its current base of customers using the service, to the extent consistent with applicable laws and regulations.

Enclosed is an invitation to participate in the FDIC's post-examination survey process. Please refer to the invitation for details and instructions.

Please provide a written response to the addresses above within 45 days of the date of this letter as to the actions taken or planned with respect to the MRBA and other examination findings contained in the Report. Alternatively, the response to the FDIC may be sent to ChiMailroom@fdic.gov via the FDIC Secure Email Portal. If you have any questions contact FDIC Case Manager [REDACTED] or [REDACTED]

Sincerely,

Michelle Ogren
Acting Deputy Regional Director
Federal Deposit Insurance Corporation

Sincerely,

[REDACTED]

Enclosures

cc: Federal Reserve Bank of Chicago



Federal Deposit Insurance Corporation
Division of Risk Management Supervision
Chicago Regional Office
300 South Riverside Plaza, Suite 1700
Chicago, IL 60606
Telephone: (312) 382-7500

February 15, 2023

Board of Directors

Members of the Board:

Thank you for your response to the findings of the April 25, 2022 joint examination. We have reviewed your correspondence, dated October 31, 2022, and as discussed in our briefing on January 18, 2023, there are additional shortcomings that we bring to your attention and ask for your prompt response. The correspondence included a revised risk assessment and fintech vendor request document. While the Board and management have taken steps to address the findings, significant work is still required to fully address the [REDACTED] related to the bank's crypto-asset service, provided by [REDACTED]

Crypto-related activities may pose safety and soundness and consumer protection risks to the institution and its customers. The types and levels of risks are dependent on the type of activity, implementation of the activity, and controls designed to mitigate the risks of the activity. Examples of risks that may be present include compliance, legal, operational, third party, and strategic. Facilitating customer crypto-asset trading alongside traditional banking products and services may also present heightened risk to the bank's customers, such as:

- Confusion about the role of the financial institution in the crypto transactions.
- Lack of understanding about the nature and risks associated with crypto-asset products.
- Inability to differentiate between the nondeposit products and traditional banking products, such as deposit accounts.
- Misunderstanding of federal deposit insurance coverage.

BANK CONTRACTUAL RESPONSIBILITIES AND LIABILITIES

The bank's contract with [REDACTED] establishes a range of responsibilities and liabilities on the bank that go beyond providing an interface for the bank's customer to submit buy and sell orders to [REDACTED]. It is not clear from the bank's documentation and analysis, including the risk assessment, that the bank sufficiently identified and addressed the implications of such responsibilities and liabilities including the following:

- ensuring that instructions to purchase or sell are promptly and accurately transmitted;
- ensuring that end users have "[REDACTED]";
- holding and transferring funds at settlement;

- settlement failure due to various factors outlined in the contract;
- maintaining security of the settlement account;
- conducting a Customer Identification Program;
- completing transaction monitoring and sanctions screening for the third party;
- providing consumer-facing trade interfaces;
- providing consumer disclosures;
- providing customer service;
- providing complaint monitoring and resolution; and
- being solely and directly liable, and indemnifying the third party, for any and all failures, errors, losses, and deficiencies of any kind with respect to the settlement account.

RISK ASSESSMENT

In general, the risk assessment was limited and lacked analysis and support for ratings assigned to likelihood, impact, inherent risk, control, and residual risk; lacked an overall risk rating; and lacked details and documentation to support that management has implemented adequate controls. Further, the risk assessment did not identify a responsible party for each risk, which is a component of the bank's risk framework, and the risks identified were neither meaningful nor comprehensive.

Your correspondence does not detail how the Board and management used the risk assessment in the bank's overall framework, including how the assessment informed management of the risks and the level and adequacy of risk management practices. This gap in the risk assessment reflects the absence of, and need for, a clear policy governing this activity and oversight responsibilities. While the risk assessment lists some of the inherent risks applicable to the crypto-asset service, management should strengthen the assessment to address the below weaknesses.

Transactional Risks

The transactional risks identified in the risk assessment were limited to "[REDACTED]" and "[REDACTED]". The "[REDACTED]" risk description is limited to the risk that the contract does not adequately cover the termination of the agreement. However, this narrow consideration of this risk does not consider the potential operational risks, financial risks, or consumer risks of a potential exit beyond coverage of contract terms. The "[REDACTED]" description does not consider any risks related to the contractual terms that establish responsibilities for and potential liabilities of the bank. Furthermore, there are no controls listed for either risk, and no support for the "[REDACTED]" and "[REDACTED]" Inherent and Residual Risk determinations.

In addition, the risk assessment did not reflect the bank's role or contractual obligations related to the activity within transactional risk such as the bank's responsibility to ensure that instructions to purchase or sell are promptly and accurately transmitted to [REDACTED]. The risk assessment did not identify or address the risk of the bank's potential inability to provide access or provide accurate information to customers due to technology service provider or [REDACTED] disruptions, in the event of an exit scenario, or due to market disruptions. The risk assessment also does not address settlement risk such as, being solely and directly liable, and indemnifying the third party, for all failures, errors, losses, and deficiencies of any kind with respect to the settlement account.

Strategic Risk

The strategic risks outlined in the risk assessment are limited to risk from growth, sensitivity to market risk, and impact to examination ratings, which do not fully address strategic risks, such as industry risk and risk from negative public perception. Furthermore, the controls are largely limited to conducting financial analysis, stress scenarios, and regular review at asset/liability committee meetings. While these items listed as controls may assist in assessing risk, they do not clearly provide controls for managing the various risks.

Legal Risk

The risk assessment lists “[REDACTED]” as a control. However, SOC reports do not assess an entity’s compliance with laws and regulations or compliance management frameworks. In addition, the correspondence did not include any new documentation to reflect review of SOC Reports or Reports of Evaluation in the due diligence files. Therefore, the SOC Reports and the Reports of Evaluation’s scope and lack of documented review and analysis of the findings call into question the effectiveness of this control. Management should also assess if the service is consistent with applicable laws and regulations.

Operational Risk

The risk assessment raises bankruptcy as a risk; however, the control is limited to stating that audited financials are reviewed periodically, and “[REDACTED]”. However, the bank did not provide an analysis of audited financials of [REDACTED] and its various affiliates that provide services or a legal analysis to understand the risk of bankruptcy. Further, while completing reference checks and ongoing financial analyses of a vendor is appropriate, it does not serve as a meaningful control to the risk of bankruptcy and the implications of the bankruptcy to this service and to the bank. Lastly, the risk assessment does not address other potential operational risks, such as information security risk, exposure to cyber-attacks, and third party risk.

Financial Risk

The risk assessment does not identify controls and provides no support for the “[REDACTED]” Inherent and Residual Risk Ratings. Furthermore, the risk assessment does not address or consider the potential financial risk associated with the various bank responsibilities that are listed in the contract as detailed above.

Compliance Risk

Under “[REDACTED]” risk, management assigned a Residual Risk rating of “[REDACTED]” based, in part, on a “[REDACTED]” control rating for management’s review of customer-facing materials and disclosures. Examiners concluded that there is a [REDACTED] risk for customer confusion regarding the nature and risks of the service, including the applicability of FDIC insurance, without more clear and conspicuous disclosure of such risks. Considering the prominence and timing of information presented in the current version of the mobile application disclosures and [REDACTED] service pages, the aforementioned “[REDACTED]” Residual Risk rating is not supported.

In addition, the “[REDACTED]”, “[REDACTED]” and “[REDACTED]” risks lists ongoing monitoring through the CMS as a control. However, there is no support evidencing that ongoing monitoring specific to the [REDACTED] service

and these inherent risks has been established or executed. The CMS Program document provided in the management response was updated to include a consideration for providing input on compliance risks surrounding a product, service, or project. This update states that specific controls to mitigate those risks would be documented by the Compliance Team or appropriate business line; however, specific controls to mitigate risks related to the [REDACTED] service have not been provided in the risk assessment or elsewhere. Therefore, the adequacy of the bank's control for the inherent risks identified cannot be sufficiently evaluated.

VENDOR DUE DILIGENCE

Management submitted an expanded fintech vendor request form that documented vendor due diligence questions and responses along with source documentation to support their review, but there are minimal assessments and support made within the review. The form should not only recite the vendor's business experience and qualifications, financial condition, legal and regulatory compliance, risk management and controls, information security, and operational resiliency, but also fully document and support the due diligence assessment. The form did not include, and due diligence should include, supporting analysis and justification for the following assessments:

- The form states that all members of [REDACTED] management appear to have adequate qualifications. However, the form does not provide justification to support the assertion that management has adequate experience, expertise, and qualifications to effectively manage the business, such as tenure of the leadership team in crypto assets; depth of expertise in crypto asset trade execution; depth of expertise and knowledge in crypto asset custody, information security, technology development, crypto regulatory environment, relevant bank regulations; and depth of experience in offering a retail crypto asset product.
- The form responds positively to the financial condition question and states that management has reviewed the financial audit performed by [REDACTED] in [REDACTED] and the company has offered additional review of unaudited financials upon request. However, the findings of the review are not clear as there is no documented financial analysis. Furthermore, the positive response did not note that [REDACTED] reported a \$ [REDACTED] operating [REDACTED] in [REDACTED].
- The form states that information security policies, procedures, and practices are adequate and effectively tested, with a justification that management reviewed the SOC 2 Type II and reviewed policies and procedures provided by [REDACTED]. However, as noted above, the bank has not provided a copy of these SOC reports and it is not clear that the scope of the SOC's are sufficient for this activity.
- The form's responses to principal ownership, length of time in business, and regulatory oversight of the company do not accurately reflect the entity that the bank is contracting with, the entity's organizational structure, or affiliate services. The form states that [REDACTED] has been operating since [REDACTED]; however, [REDACTED], the entity that the bank contracts with did not exist in [REDACTED]. The form also states that the regulators

are the [REDACTED] and the Securities and Exchange Commission; however, [REDACTED] is not overseen by either agency.

- The form notes that the business continuity and disaster recovery practices of the organization adequately protect the operations of the business. However, the form does not provide justification that management has fully reviewed the business continuity plans and disaster recovery test, including the results of the testing, and how they align with the bank's objectives.
- The form does not provide justification to support that [REDACTED] disclosures mitigate the risk of customer confusion in a manner that clearly and fully informs customers of the nature and risks associated with these products.

COMPLIANCE MANAGEMENT SYSTEM

Management's response that "the disclosures on the [REDACTED] platform do not claim or indicate that the service is FDIC insured" is accurate. Nonetheless, the inconsistency and lack of prominence in disclosing the bank's role and the nature and risks of the service throughout the mobile application limits the clear and conspicuous disclosure of information that could assist customers in making fully informed decisions when using the service. For example:

- The bank's mobile banking application main menu screen includes a link where customers enroll for and subsequently access the crypto-asset service. A disclosure at the bottom of the menu screen notes, "[REDACTED]." However, there is no disclosure noting that the crypto-asset service is offered by [REDACTED] and that bitcoin is not FDIC insured.
- Bitcoin trade confirmations for each purchase and sale, provided to customers through the mobile application and via email, list [REDACTED] name and contact information for customer support. While a disclosure at the bottom of the confirmation page states, "[REDACTED]," without additional disclosure around the nature and risk of the service, the presence of the bank's name on the confirmation page creates the potential for customer confusion surrounding the role of the bank and the lack of protections afforded to this service.

Financial institutions with strong CMS controls to mitigate risks with nondeposit products, such as the [REDACTED] crypto-asset service, provide consistent, detailed disclosures across all customer-facing screens when such a product is directly embedded in a bank's mobile application banking platform. The risk for customer confusion is especially present within the bank's mobile banking application as customers can access both the [REDACTED] nondeposit product and bank FDIC-insured deposit products. Strong controls are those that reduce the risk of customer confusion surrounding the nature and risk of any nondeposit product in a manner that fully informs the customers that bitcoin is: 1) not insured by the FDIC, 2) not a deposit or other obligation of, or guaranteed by, the depository institution; or 3) subject to investment risks, including possible loss. The *Interagency Statement on Retail Sales of Nondeposit Investment Products* and *FDIC Part 328 Subpart B* outlines these types of controls to mitigate risk of customer confusion. Providing consistent, detailed disclosures across all forms

and application interface screens may also mitigate the institution's risk of negative public perception that is presented by offering the crypto-asset service.

Providing customers clear, conspicuous, prominent, and timely information about the potential risks related to any product or service offered by, through, or in connection with the bank enhances transparency and reduces the potential for claims relating to misrepresentation and unfair or deceptive practices against the institution. Such information could include a unique acknowledgement page that prominently states that the customer is leaving the area of the mobile application that displays the bank's products and services and entering the area that displays [REDACTED] products and service and discloses potential risks related to the service in simple plain language statements. Such enhancements to disclosures related to the [REDACTED] service may assist the bank to reduce the risk of customer misperceptions about FDIC insurance coverage and ensure customers can clearly differentiate between the nature of and risks related to deposit and nondeposit products offered by, through, or in connection with the bank.

BOARD OVERSIGHT

The Board's actions to address the regulatory concerns with the crypto-asset service cited in the April 25, 2022 joint examination are insufficient. As described above, the bank failed to appropriately address the regulatory findings related to the risk assessment, vendor due diligence, and the compliance management system.

Please provide a response to this letter by March 31, 2023. If you have any questions contact FDIC Case Manager [REDACTED], or [REDACTED].

Sincerely,
Gregory P. Bottone
Regional Director
Federal Deposit Insurance Corporation

cc: Federal Reserve Bank of Chicago

Sincerely,

[REDACTED]



Federal Deposit Insurance Corporation
Division of Risk Management Supervision
Division of Depositor and Consumer Protection
Chicago Regional Office
300 South Riverside Plaza, Suite 1700
Chicago, IL 60606
Telephone: (312) 382-7500

August 16, 2023

Board of Directors

Members of the Board:

We have reviewed your correspondence, dated May 30, 2023, and the subsequent information provided on July 17, 2023. The correspondence addresses the bank's plan to terminate and unwind its agreement with [REDACTED] to offer its retail deposit customers the ability to buy, sell, and hold Bitcoin through the bank's mobile banking platform provided by [REDACTED].

The correspondence contained the bank's termination agreement with [REDACTED] and the [REDACTED] Financial Bank Wind Down Plan, which indicates a 90-day liquidation period after notifications are sent to customers. In addition, the correspondence contained the proposed notification to customers regarding the termination of the bank's agreement with [REDACTED] and key facts regarding the closure of their accounts with [REDACTED].

Please maintain all records related to the wind down of the relationship with [REDACTED], including key termination benchmarks, account closure data, training and general talking points provided to the marketing department, and customer complaints and questions. The full implementation of the bank's termination plan, as well as an assessment of whether the Matter Requiring Board Attention included in the April 25, 2022 Report of Examination has been resolved, will be evaluated at the bank's upcoming Safety and Soundness examination, scheduled for the 4th quarter of 2023.

If you have any questions contact FDIC Case Manager [REDACTED]
or [REDACTED].

Sincerely,
Gregory P. Bottone
Regional Director
Federal Deposit Insurance Corporation

cc: [REDACTED]



Federal Deposit Insurance Corporation
Division of Risk Management Supervision
Chicago Regional Office
300 South Riverside Plaza, Suite 1700
Chicago, IL 60606
Telephone: (312) 382-7500
FAX: (312) 382-6901

March 5, 2024

Board of Directors

Subject: November 27, 2023, Report of Examination (Report)

Dear Board Members:

We have enclosed the subject Report prepared jointly by the [REDACTED] and the Federal Deposit Insurance Corporation (FDIC). The Report includes the findings of the concurrent Information Technology, Anti-Money Laundering/Countering the Financing of Terrorism, and Trust examinations. Each Director should thoroughly review the Report and acknowledge this review by signing the Signature of Directors page included at the end of the Report. Please keep the signature page with the Report and record the Board's review in the minutes.

The overall condition of the institution remains [REDACTED]

The Bank previously offered a cryptoasset service through the third-party [REDACTED] that would allow deposit customers to buy, sell, and hold Bitcoin. On April 5, 2022, the FDIC sent a letter to the Board stating plans to perform a detailed review of the activity at the April 25, 2022 examination and requesting that the Bank not expand the service until we completed that review. The FDIC and [REDACTED] provided supervisory feedback to the Bank in the April 25, 2022 Report of Examination and requested that the Board ensure that the weaknesses outlined are fully addressed. The Bank provided a response on October 31, 2022, and the FDIC and [REDACTED] provided further supervisory feedback to the Bank on February 15, 2023. On May 30, 2023, the Bank notified the FDIC and [REDACTED] that management and the Board voted to end the partnership with [REDACTED]. Customers with Bitcoin holdings were notified in July 2023 that the service would be stopped, holdings would be sold on October 17, 2023, and accounts subsequently closed. The Bank no longer maintains a relationship with [REDACTED]. The MRBA is considered closed. The FDIC acknowledges the Bank's updated status related to this activity, and the April 5, 2022 FDIC letter to the Board is superseded as a result of the May 30, 2023 and subsequent communication to the FDIC. The FDIC requests that the Bank notify this office if the status of this activity, or other crypto-related activity, changes in the future.

The ratings, the contents of the Report, and this letter are subject to the confidentiality restrictions of [REDACTED] and Part 309 of the FDIC Rules and Regulations.

Enclosed is an invitation to participate in the FDIC's post-examination survey process. Please refer to the invitation for details and instructions.

Please provide a written response to the examination findings to both offices within 45 days after the date of this letter as to the actions taken or planned with respect to recommendations discussed in the Report. Correspondence to the FDIC may be submitted as a PDF file to ChiMailRoom@fdic.gov using the secure message center at <https://securemail.fdic.gov>.

If you have any questions or comments regarding the Report, please contact FDIC Case Manager [REDACTED] or [REDACTED] or [REDACTED]

Sincerely,

Nicole M. Orlando
Assistant Regional Director
Federal Deposit Insurance Corporation

Enclosures

cc: Federal Reserve Bank of Chicago



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

August 22, 2022

Board of Directors
[REDACTED]

Subject: Third-Party Crypto-Asset Activity

Dear Members of the Board:

On June 13, 2022, we received [REDACTED] (the Bank) notification 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] in response to Financial Institution Letter (FIL), FIL-16-2022, Notification of Engaging in Crypto-Related Activities.

The FDIC requests insured depository institutions provide information necessary to allow the FDIC to assess the safety and soundness, consumer protection, and financial stability implications of such crypto-asset activities. In order to begin those assessments, please provide the information in the attached list by October 22, 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 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.

If you have any questions, please contact Case Manager [REDACTED] or Acting Review Examiner [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

cc: [REDACTED]

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, 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. Board and committee minutes reflecting approval, discussion, analysis, and any documentation provided on the activity.
5. Legal analysis of the permissibility of the services under part 362 of the FDIC's Rules and Regulations, and under the [REDACTED] banking regulations.
6. Analysis performed with respect to SEC Staff Accounting Bulletin No. 121 and services.
7. Vendor management due diligence documentation and analysis for [REDACTED] and [REDACTED] including audits, financials, insurance, complaints, etc.
8. Contracts and legal agreements between the bank and third party vendors related to crypto-asset activities.
9. Overview of the contracting process including who is involved in the review, analysis, and structuring.
10. Contract analysis performed.
11. Policies and procedures that will govern the crypto-related activity, including those related to consumer compliance and complaint resolution.
12. If not outlined in policies and procedures, the framework of assigned responsibilities and qualifications for those involved in day-to-day administration of crypto-related services, 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.
13. Internal training materials related to the crypto-related activity.
14. Marketing materials, press releases, internal scripts, educational materials, and any publicly distributed information related to the crypto-related activity (draft or proposed). This includes screen shots/screen recordings of any online banking or mobile application interfaces (including hidden text that must be clicked) that will be made visible to consumers by, or through, the bank in connection with these activities.
15. Schedule a live demonstration for the FDIC of the customer viewpoint from enrollment to purchase, sale, and trade confirmation.
16. Draft consumer agreements, disclosures, or other terms and conditions related to these activities provided by, or through, the bank and by third parties.
17. Reports of volume of crypto-related activity including: 1) the number of active accounts using this service through the bank, 2) the total number and dollar volume of buy transactions completed (since implementation), and 3) the total number and dollar volume of sell transactions completed (since implementation).
18. Description of the transaction flow and related controls.
19. Detailed description of the settlement process for customer buy/sell transactions between the bank, [REDACTED], and any other related parties.

20. Description of what happens to customers' Bitcoin if the bank does not continue or cancels offering services provided by [REDACTED].
21. Description of any Bank fees that will be charged to consumers related to the crypto-related 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.
22. Description of any transaction limitations imposed by [REDACTED] or the bank on the amount of Bitcoin a consumer may purchase or sell and any time limits (e.g. daily, weekly, monthly).
23. Description of the methodology that determines the price a consumer pays to [REDACTED] for a Bitcoin. This includes providing an explanation of how any market price is determined and how the spread, if any, is calculated.
24. Plans for ongoing monitoring and audit of crypto-related products and services offered by the Bank.
25. Any other due diligence materials.



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

April 11, 2023

Board of Directors
[REDACTED]

Subject: Response to Notification – Third-Party Crypto-Asset Activity

Dear Members of the Board:

On May 27, 2022, we received [REDACTED] (the Bank) notification of the intent to offer Bank customers the ability to buy, sell, and hold Bitcoin through the Bank's digital and mobile banking platforms in conjunction with [REDACTED]. This notification was in response to Financial Institution Letter (FIL), FIL-16-2022, Notification of Engaging in Crypto-Related Activities. On June 27, 2022, the FDIC sent a letter to the Board requesting that the Bank delay expansion of crypto-asset services while the FDIC considered the proposed crypto-related activity. On August 22, 2022, the FDIC sent a letter to the Board requesting information necessary to allow the FDIC to assess the safety and soundness, consumer protection, and financial stability implications of such activities. The requested documents were received via FDIC Connect/EFX on October 14, 2022 and December 13, 2022. A live demo of the platform was performed for regulators via MS Teams on November 29, 2022. During the February 6, 2023 Safety and Soundness Visitation, additional information was requested and meetings were held with Bank management to discuss the proposed activity.

In a subsequent letter sent to the FDIC and [REDACTED], received via FDIC Connect/EFX on February 22, 2023, Bank management stated that the Bank had decided to cease efforts to provide bitcoin services to Bank customers via [REDACTED] and [REDACTED]. The letter states that the Bank will work with [REDACTED] and [REDACTED] to provide time for Bank employees to unwind their positions. Once that is completed, the Bank would terminate all access to [REDACTED]. The FDIC acknowledges the Bank's updated status related to this activity, and the June 27, 2022 FDIC letter to the Board has been superseded as a result of the Bank's February 22, 2023 communication to the FDIC and [REDACTED]. We request that the Bank notify this office if the status of this activity, or other crypto-related activity, changes in the future.

Written correspondence should be addressed to Gregory P. Bottone, Regional Director, FDIC, Chicago Regional Office, and sent as a PDF document through the FDIC's Secure Email

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

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 questions, please contact Assistant Regional Director Debbie J. Bush [REDACTED] or Assistant Regional Director of Compliance Amy T. Richardson [REDACTED]

Sincerely,

Gregory P. Bottone
Regional Director

cc: [REDACTED]

Federal Reserve Bank of Chicago

[REDACTED]

From: RMS ATL Secretaries
Subject: FW: Secure email: Crypto-Related Activities FDIC Letter
Attachments: [REDACTED] Bank Crypto-Related Activities No Longer Prospective 2023
FINAL.pdf

From: [REDACTED]
Sent: Friday, August 18, 2023 10:36 AM
To: RMS ATL Secretaries <RMSATLSecretaries@FDIC.gov>
Subject: FW: Secure email: Crypto-Related Activities FDIC Letter

Good morning:

Could you please RADD this email and letter to [REDACTED] Bank's Correspondence folder? It is an FDIC Letter/RO sent to the bank.

Thank you,

[REDACTED]
Case Manager, RMS
Federal Deposit Insurance Corporation
1600 Corporate Parkway, 130
[REDACTED]

FDIC

***PRIVILEGED & CONFIDENTIAL EXAMINATION MATERIAL:** This message and any corresponding attachments are confidential and intended for the sole use of the individual(s) or entity(ies) to which the e-mail is addressed. If you are not the intended recipient, you must not review, retransmit, convert to hard-copy, copy, use or disseminate this e-mail or any of its attachments. If you received this e-mail in error please notify the sender immediately and delete it. Thank you.*

From: [REDACTED]
Sent: Friday, August 18, 2023 10:20 AM
To: [REDACTED]
Subject: Secure email: Crypto-Related Activities FDIC Letter

CRO [REDACTED]

Attached is the FDIC letter related to the bank's prior statements indicating that management was no longer pursuing crypto-related activities. If you have any questions, please email or call me.

Thank you,

[REDACTED]

Case Manager, RMS

Federal Deposit Insurance Corporation

1600 Corporate Parkway, 130


FDIC

***PRIVILEGED & CONFIDENTIAL EXAMINATION MATERIAL:** This message and any corresponding attachments are confidential and intended for the sole use of the individual(s) or entity(ies) to which the e-mail is addressed. If you are not the intended recipient, you must not review, retransmit, convert to hard-copy, copy, use or disseminate this e-mail or any of its attachments. If you received this e-mail in error please notify the sender immediately and delete it. Thank you.*



Federal Deposit Insurance Corporation
Division of Risk Management Supervision
Division of Depositor and Consumer Protection

Atlanta Regional Office
10 10th Street NE, Suite 900
Atlanta, Georgia 30309-3849
Phone (678) 916-2200

August 17, 2023

Board of Directors

Subject: Response to Notification of Engagement in Crypto-Related Activities

Dear Members of the Board:

The FDIC acknowledges the notification provided by [REDACTED] (the Bank) dated August 12, 2022, regarding 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] The notification was provided pursuant 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 promptly notify the appropriate FDIC Regional Director. On September 13, 2022, the FDIC sent a letter to the Board requesting information necessary to allow the FDIC to assess the safety and soundness, consumer protection, and financial stability implications of such activities. This letter also noted that once the FDIC completed its review of the requested information, it would determine whether additional information was necessary to complete review of the activity; the FDIC would provide the institution with relevant supervisory feedback, as appropriate; and until the FDIC completed its review, the Bank should refrain from providing these services to its customers.

In discussions with the examination team during the February 21, 2023 Joint Examination, and in an email dated May 30, 2023, Chief Risk Officer [REDACTED] indicated that the Bank no longer intends to engage in the activity outlined in the Bank's notification. The FDIC acknowledges the Bank's updated status related to this activity, and the September 13, 2022, FDIC letter to the Board has been superseded because of the communications to the FDIC during the February 21, 2023 examination and on May 30, 2023. We request that the Bank notify this office if the status of this activity, or other crypto-related activity, changes in the future.

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] or Review Examiner [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
VOGEL**

Digitally signed
by JOHN VOGEL
Date: 2023.08.17
20:49:16 -04'00'

John F. Vogel
Acting Regional Director

cc: [REDACTED]



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

April 30, 2021

President [REDACTED]
[REDACTED]

Subject: Letter Dated February 12, 2021

Dear [REDACTED],

Your letter requests FDIC non-objection or approval for [REDACTED] to provide cryptocurrency custody services for customers, including holding unique cryptographic keys associated with cryptocurrency, and other related services.

The FDIC is unable to provide feedback on the proposed cryptocurrency custody services without additional information.

First, concerning the proposed cryptocurrency custody services, the FDIC needs to determine whether the bank has the appropriate expertise and risk management framework to appropriately manage and oversee the activity. Thus, we recommend that the bank submit detailed information regarding its existing or proposed oversight framework. The FDIC also needs to determine whether this activity is being conducted in a fiduciary capacity under state law. The [REDACTED], in its February 16, 2021 letter, offered the Bank the opportunity to request a declaratory statement pursuant to [REDACTED] Statutes. Thus, we recommend that the Bank obtain such statement from the [REDACTED] concerning the permissibility of the proposed cryptocurrency custody services and whether such services will be considered fiduciary activities under state law.

Second, the Bank's letter lists additional services contemplated by bank management, including cash custody, lending against cryptocurrency, and settlement services, but provides insufficient detail for our review. After we have completed our review of the proposed cryptocurrency custody services, we recommend that you provide a detailed explanation of the additional services that the Bank intends to provide.

We understand this is an emerging area in the banking and financial services industry. We are happy to meet with you at your convenience to discuss your proposed activities and address any questions you may have regarding our request for additional information. If you have any questions, or wish to schedule a meeting, please contact Case Manager [REDACTED]

Sincerely,

TIMOTHY
RICH

Digitally signed by
TIMOTHY RICH
Date: 2021.04.30 07:10:23
+04'00'

Timothy D. Rich
Deputy Regional Director



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

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

March 13, 2023

Via Secure Email
Board of Directors

Subject: Response to Notification of Engagement in Crypto-Related Activities

Dear Members of the Board:

On March 15, 2022, the FDIC sent a letter to President [REDACTED] requesting that [REDACTED] Bank (Bank) notify this office of any material change in the Bank's plans with respect to the internal, closed-loop payment service provided by [REDACTED] New York, New York, [REDACTED] including, but not limited to, expanding the service to include clients, transactions, or activities outside of the bank, such as through [REDACTED]. The March 15th letter also noted that the FDIC might have additional questions to clarify the bank's proposed activities prior to expanding the service to ensure the bank is operating in a safe and sound manner. The FDIC acknowledges the email notification provided by the Bank dated August 24, 2022, regarding the Bank's plans to participate in the October 1, 2022 testing of [REDACTED]. The [REDACTED] will operate as a technology provider that, principally through a messaging service, allows FDIC-insured banks to offer instant payments and other payment solutions to their customers. The notification was provided pursuant to Financial Institution Letter (FIL), FIL-16-2022 Notification of Engaging in Crypto-Related Activities and to the FDIC's March 15, 2022 letter. 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

While the Bank participated in the October 1, 2022 testing of the Network, during a November 4, 2022 videoconference, President [REDACTED] informed the FDIC that the Bank has no plans to utilize The Network at this time. The FDIC acknowledges the Bank's updated status related to this activity, and the March 15, 2022, FDIC letter to President [REDACTED] has been superseded as a result of the August 24, 2022, communication to the FDIC. We request that the Bank notify this office if the status of this activity, or other crypto-related activity, changes in the future, including, but not limited to, any proposed material changes in the internal [REDACTED] service described to the FDIC or planned expansion of the service to include any clients, transactions, or activities outside the Bank.

1

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Board of Directors
[REDACTED]

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] or Senior Review Examiner [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

cc: [REDACTED]

**Federal Deposit Insurance Corporation**








10 10th Street NE, Suite 900, Atlanta, GA 30309-3849




Atlanta Regional Office









January 26, 2024

Board of Directors
Subject: Matters Requiring Board Attention ("MRBA")

Dear Members of the Board:

A visitation of  was conducted by FDIC Examiner  commencing on August 1, 2022. Additional onsite follow-up work related to the visitation was conducted beginning on November 28, 2022. The visitation scope focused primarily on 's implementation and operation of the  a product of   which began on June 24, 2022. Visitation findings, including multiple MRBA, were transmitted to  via a letter dated October 10, 2023. As noted therein, MRBA identified during the visitation included the following:

- Management's technical understanding of the  system;
- Risk assessment practices;
- Legal review practices;
- Assigned oversight of the  System;
-  Banking Policy;
- Transaction monitoring practices associated with Anti-Money Laundering/Countering the Financing of Terrorism;
- Disaster Recovery/Business Continuity Planning; and,
- Customer Disclosures and Other Customer Facing Materials.

We received 's written response to visitation findings, dated October 19, 2023. While acknowledging the appropriateness of each listed recommendation and confirming that visitation findings were discussed in detail with the Board, the response ultimately concludes that the concerns outlined in the MRBAs referenced above are no longer applicable to the operating environment of . Specifically, the response confirms previous communications that 's contract with  was cancelled in June 2023, and states that the  platform has been decommissioned. In light of the termination of  and the decommissioning of associated products and services, all associated MRBA are closed. The FDIC acknowledges the Bank's updated status related to this activity. Should the Board decide to re-engage in , similar activities, or other crypto-related activity, the FDIC requests that  notify this office and management and the Board should ensure that all related recommendations for enhancement are addressed prior to implementation. Management and the Board should also refer to Financial Institution Letter 16-2022 *Notification and Supervisory Feedback Procedures for FDIC-Supervised Institutions Engaged in Crypto-Related Activities* for additional considerations.

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). We appreciate your diligence in addressing supervisory concerns, and your patience throughout the supervisory process. If you have any questions, please contact Case Manager [REDACTED] at [REDACTED] or at [REDACTED]. As a reminder, all official correspondence to the FDIC should be submitted as a PDF file to ATLMailRoom@fdic.gov using the secure message center at <https://securemail.fdic.gov>.

Sincerely,

Timothy D. Rich
Regional Director

cc: [REDACTED]



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

Division of Risk Management Supervision
Kansas City Regional Office | (816) 234-8000

November 7, 2022

Board of Directors
[REDACTED]

Subject: Bitcoin 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], in response to Financial Institution Letter (FIL)-16-2022, Notification of Engaging in Crypto-Related Activities. The Bank's letter also stated plans to offer a debit card with cash rewards that [REDACTED] pays in the form of bitcoin. Furthermore, in the letter, [REDACTED] advised that it had extended credit in November 2021 to [REDACTED] in the amount of \$[REDACTED].

Consistent with the procedures outlined in FIL-16-2022 and as stated in our letter to you on August 8, 2022, the FDIC is making an information request to allow the FDIC to assess the safety and soundness, consumer protection, and financial stability implications of such activities. Please see the attached request lists regarding the Bank's crypto-related activities, and provide a response addressing each item on the request lists by Friday, January 6, 2023. 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.

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 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

Attachments (2)

cc:



Request List: Crypto-Asset Collateralized Commercial Lending

1. Loan and security agreements.
2. Risk assessment related to crypto lending.
3. Loan policy, procedures, underwriting standards and customer eligibility criteria related to crypto lending, and a description of the bank's expertise in crypto lending.
4. Board and loan committee minutes reflecting approval, discussion, analysis, and any documentation provided to the board/loan committee (beyond the documentation provided to the FDIC on 6/3/22).
5. For each credit: origination balance; balance as of 9/30/22; margin call history (when margin calls were made and met, and amounts), capital risk weighting treatment, loan loss reserve associated with such loans, note and security agreements.
6. Borrower and guarantor financials and associated analyses (beyond the documentation provided to the FDIC on 6/3/22).
7. Legal analysis and determination related to the permissibility of proposed activity, including crypto asset ownership and perfection of the bank's security interest, and any accompanying opinion of counsel.
8. Description of the collateral maintenance monitoring function and reporting on collateral maintenance monitoring.
9. If collateral involved is re-hypothecated collateral tendered by the borrower's clients, documentation of borrower's authority to re-hypothecate (such as from the borrower's underlying financing arrangements) and analysis of the adequacy and enforceability of the borrower's documentation.
10. For any collateral custodians and entities that provide collateral maintenance functions:
 - a. Contracts or agreements
 - b. Risk assessment and due diligence
 - c. Bankruptcy implications analysis performed by the bank
 - d. Ongoing monitoring.
11. Detailed description of the information technology arrangement or infrastructure utilized for the collateral maintenance functions, including all data flows, interfaces with the bank's core systems, and new IT development and costs to implement/facilitate.
12. Independent credit review documentation.

Request List: [REDACTED] **and** [REDACTED]

1. Overview of contracting process, including who was involved in the review. Please include contracts, including drafts, and any contract analysis performed prior to execution.
2. Policies and procedures that will govern each of the crypto-related activities, including those related to consumer compliance and complaint resolution. If not outlined in policies and procedures, include a description of day-to-day oversight responsibilities and qualifications.
3. Strategic plan, if updated since the Digital Banking Strategy dated September 2021, and related documents, including risk assessment and cost-benefit analysis, along with the implementation plan. For each activity, 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.
4. The bank's permissibility analysis and determination with respect to each activity.
5. Board and committee minutes reflecting discussion, analysis, approval, and any documentation provided on the activities.
6. Vendor management due diligence documentation and analysis related to [REDACTED], including audits, financials, insurance, complaints, etc.
7. Description of the transaction flows and related controls for the [REDACTED] Platform. Description of the controls for the settlement process between the bank and [REDACTED] and any transaction limitations imposed by [REDACTED] or the bank on the amount of bitcoin a customer may purchase or sell.
8. Description of fees charged to customers, how fees are calculated, and how they are split between the bank and any third-parties involved in the activity.
9. Description of the methodology that determines the price customer pays to [REDACTED] for bitcoin through the [REDACTED] Platform. Also, describe the methodology used to price the bitcoin awarded to customers through the [REDACTED] Program.
10. Provide transaction volumes to date that include: 1) number of active accounts using this service through the bank, 2) total number and dollar volume of buy transactions completed, and 3) total number and dollar volume of sell transactions completed.
11. Description of transaction monitoring processes in place to identify and report suspicious activity associated with customer transactions between the bank and [REDACTED].
12. Timeline for implementing [REDACTED] program.
13. Provide any customer agreements, disclosures, sample account statements, sample transaction receipts, and other terms and conditions obtained or developed thus far in your due diligence process for these programs.
14. Details on operational aspects of the [REDACTED] Program, including, but not limited to: 1) the types of credit and debit cards that can be enrolled in the program, 2) the process of converting rewards or USD to bitcoin; 3) when and how transaction receipts are provided for purchase transactions, 4) if and how customers can turn the features on or off for any given period.
15. Marketing materials, press releases, internal scripts, educational materials, and any other publicly-distributed information related to the [REDACTED] Platform and the [REDACTED] Program (draft or proposed). In addition to those provided to the FDIC on 6/3/22, screen shots/screen recordings of all user interfaces (including hidden text that must be clicked) that will be made visible to customers by, or through, the bank in connection with the [REDACTED] Platform and the [REDACTED] Program (including enrollment screens).



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

NONPUBLIC//FDIC BUSINESS

Division of Depositor and Consumer Protection
Division of Risk Management Supervision
Kansas City Regional Office | (816) 234-8000

June 14, 2023

Board of Directors



Subject: Third-Party Crypto-Asset Activity

Members of the Board:

In a letter dated May 10, 2022, [REDACTED] (Bank) notified the FDIC of its intent to offer crypto-asset buy, sell, and hold services to customers, among other crypto-related activities. This notification was in response to Financial Institution Letter (FIL), FIL-16-2022, *Notification of Engaging in Crypto-Related Activities*. Risk Management Supervision Case Manager [REDACTED] and Assistant Regional Director Michele Sharp and Depositor and Consumer Protection Acting Assistant Regional Director Karin Mance held a phone discussion with President/Chief Executive Officer (CEO) [REDACTED], Chief Credit Officer [REDACTED], and Chief Financial Officer [REDACTED] on June 2, 2022, to discuss the Bank's plans.

On August 9, 2022, the FDIC sent a letter to the Board requesting that the Bank delay expansion of crypto-asset buy, sell, and hold services while the FDIC considered the proposed crypto-related activity. In a letter dated November 7, 2022, the FDIC sent the bank a crypto-asset activity request list and requested the information by January 6, 2023. Bank provided the response to the request items on the date requested. Additional items were provided on January 24, 2023.

Following the FDIC's review of the provided items, Case Manager [REDACTED] and Review Examiner [REDACTED] discussed the additional request list items that remained outstanding with Bank representatives. During this March 13, 2023, phone discussion, President/CEO [REDACTED] stated that the expansion of crypto-asset activity is no longer a top priority, and the requested items would be gathered and submitted when management is ready to move forward. No clear timeline has been established.

Please keep the FDIC updated of the Bank's plans concerning crypto-asset activity prior to pursuing the same. We will review then relevant information, which could include previously requested items.

[REDACTED]

If you have any questions, please contact Case Manager [REDACTED] or Review Examiner [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 (securemail.fdic.gov) using the KCMailroom@fdic.gov e-mail address.

Sincerely,
James D. LaPierre
Regional Director

cc: [REDACTED]



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

Division of Risk Management Supervision
Kansas City Regional Office | (816) 234-8000

January 27, 2025

Board of Directors



Subject: Response to Notification of Engagement in Crypto-Related Activities

Dear Members of the Board:

On May 10, 2022, [REDACTED] (the Bank) notified the FDIC of the Bank's (1) beta testing of a bitcoin buy/sell/hold offering ("bitcoin facilitation activity"); (2) intent to offer a bitcoin debit card rewards program, and (3) making of a loan secured by bitcoin in November of 2021. The notification was provided pursuant 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. On August 9, 2022, the FDIC sent a letter to the Board that stated, among other things, that the FDIC was continuing to review bitcoin facilitation activity, and requested that the Bank refrain from expanding the buy/hold/sell offering to additional customers until the FDIC completed its review of the activity. Subsequently, on November 7, 2022, the FDIC sent a letter to the Board requesting additional information necessary to allow the FDIC to assess the safety and soundness, consumer protection, and financial stability implications of the facilitation, bitcoin debit card rewards, and lending activities. On March 13, 2023, bank management stated the bitcoin buy/sell/hold offering and bitcoin debit card rewards programs were no longer priorities, and they would provide the requested items before continuing with either program.

In an email dated December 4, 2024, Chief Executive Officer [REDACTED] stated that the loan secured by bitcoin paid off on schedule in November 2024. He also stated that management has no additional crypto-related activities planned. The FDIC acknowledges the Bank's updated status related to this activity, and the August 9, 2022, FDIC letter to the Board has been superseded as a result of the Bank's December 4, 2024, communication to the FDIC. We request that the Bank notify this office if the status of this activity, or other crypto-related activity, changes in the future.

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] or Senior Review Examiner [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 (securemail.fdic.gov) using the following e-mail address: KCMailroom@FDIC.gov.

Sincerely,

Jessica A. Kaemingk
Regional Director

cc:




Federal Deposit Insurance Corporation

New York Regional Office

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

December 10, 2018

Board of Directors

Subject: New Digital Payments Platform - [REDACTED]

Dear Board Members:

We understand that [REDACTED] announced on December 4, 2018, that its new digital payments platform, [REDACTED], will be open to all of its commercial clients on January 1, 2019. We have reviewed this announcement, the Bank's letters dated September 12, 2018 and October 18, 2018, to the [REDACTED] regarding the [REDACTED] program, and participated in the November 19, 2018 conference call during which the program was discussed.

Based on our review of these materials and the conference call, we request that you provide us with the following information:

- Any due diligence, analysis or opinions, whether prepared by the Bank or outside counsel, a consultant or other third party, regarding:
 - Whether the [REDACTED] Program and each transaction contemplated by the [REDACTED] program is an "activity permissible for a national bank" for purposes of Part 362 of the FDIC Rules and Regulations "*Activities of Insured State Banks and Insured Savings Associations*";
 - Whether [REDACTED] are securities for purposes of the Securities Act of 1933 and the Securities Exchange Act of 1934;
 - Whether [REDACTED] are virtual currencies as contemplated by Internal Revenue Service (IRS) Notice 2014-21 and what, if any, IRS reporting requirements would the Bank have in connection with the [REDACTED] Program and any transactions involving the [REDACTED] Program in any way;
 - The assumption by [REDACTED]; and
 - [REDACTED], its affiliates and their primary shareholders and senior management.

Board of Directors
[REDACTED]

- All disclosures and representations that will be provided to Bank customers participating in the [REDACTED] program, including:
 - the user agreement and/or any user terms and conditions;
 - disclosures regarding the availability of FDIC Deposit Insurance coverage; and
 - disclosures regarding funds availability.

In light of the Bank's announcement, it would be helpful to have the requested materials as soon as possible, but in no event later than December 28, 2018.

In your correspondence to the [REDACTED], you offered to meet to discuss the [REDACTED] program and the materials provided and to answer any questions they might have. The New York Regional Office of the Federal Deposit Insurance Corporation would find such a meeting helpful and would like to schedule it your earliest convenience.

Should you have any questions regarding the request please contact me at [REDACTED].

Sincerely, [REDACTED]
[REDACTED]

Steven P. Slovinski
Assistant Regional Director



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

December 2, 2021

Board of Directors



Subject: [REDACTED]

Dear Board Members:

We understand that [REDACTED] plans to begin testing of the new digital payments platform, [REDACTED], on [REDACTED]. We have reviewed materials provided by the Bank for the [REDACTED] and [REDACTED] conference calls during which the program was discussed. Based on our review of these materials and the information provided during the conference calls, we request that you provide us with the following information:

- Any due diligence, analysis or opinions, whether prepared by [REDACTED] or its outside counsel, a consultant or other third party, regarding:
 - Whether the [REDACTED] and all contemplated usages are “activit[ies] permissible for a national bank” for purposes of Part 362 of the FDIC Rules and Regulations, 12 C.F.R. Part 362;
 - Whether [REDACTED] and all contemplated usages are permissible under applicable [REDACTED] statutes and regulations;
 - [REDACTED] position that [REDACTED] is not a stablecoin;
 - [REDACTED] statement during the [REDACTED] presentation that [REDACTED] would not be considered a security for purposes of the Securities Act of 1933 and the Securities Exchange Act of 1934. Has this position been confirmed with the Securities and Exchange Commission?;
 - Whether [REDACTED] or any related activities would be subject in any way to the jurisdiction of the Commodity Futures Trading Commission;
 - [REDACTED] position that FDIC deposit insurance would be available to qualifying commercial Bank client owners [REDACTED];
 - Whether [REDACTED] are virtual currencies as contemplated by Internal Revenue Service (IRS) Notice 2014-21 and what, if any, IRS reporting requirements would

[REDACTED]

the Bank have in connection with the [REDACTED] and with respect to any transactions involving them;

- [REDACTED] its operators and senior management;
 - The ability to overlay the safeguards discussed in the [REDACTED] presentation on the [REDACTED] and associated transaction restrictions, and monitoring, e.g., the Bank's BSA/AML/OFAC transaction monitoring;
 - The ability of [REDACTED] BSA/AML/OFAC transaction monitoring systems to effectively monitor [REDACTED] transactions;
 - cybersecurity protocols, risks, incident remediation procedures, and the relative responsibilities of [REDACTED] and third party service providers;
 - [REDACTED] third party vendor due diligence and oversight process, and the effectiveness of [REDACTED] oversight over third party vendors; and
 - The [REDACTED] and any third parties providing services in connection with the [REDACTED].
- All agreements, disclosures, and representations that will be provided to or made by [REDACTED], including:
 - any application, user agreement and/or any user terms and conditions associated with becoming an [REDACTED];
 - any disclosures regarding [REDACTED];
 - any disclosures related to private keys;
 - any disclosures regarding token functionalities, including wallet freezes/locks and asset claw-backs;
 - concerning cybersecurity protocols, risks, incident remediation procedures, and the relative responsibilities of [REDACTED], and any third service providers;
 - disclosures regarding the privacy and/or sharing of personal information of [REDACTED];
 - disclosures regarding the availability of FDIC Deposit Insurance coverage to [REDACTED];
 - disclosures regarding funds availability related to [REDACTED];
 - any applicable schedule of fees or other charges, whether by [REDACTED], the [REDACTED] or any other [REDACTED] service provider; and
 - any agreement and/or terms and conditions applicable to the [REDACTED] omnibus escrow account.
 - Any agreements between the [REDACTED] and the [REDACTED], the [REDACTED], and any entity or individual working for or affiliated with [REDACTED] or the [REDACTED] or otherwise involved or associated in any way with [REDACTED].
 - Any agreements, or any amendments to agreements, between the [REDACTED] and any other entity or individual involved in any way with [REDACTED].
 - Any agreements or arrangement between [REDACTED] and the [REDACTED].

- [REDACTED]
- Any [REDACTED] policies and procedures governing or related to the [REDACTED] including, without limitation:
 - concerning the creation and burning of [REDACTED] as [REDACTED] funds are transferred in or out of [REDACTED], including, without limitation, in instances when private keys are lost or rendered inoperable;
 - concerning the use of [REDACTED] deposits by [REDACTED], including, without limitation, any earmarking of the assets acquired to the [REDACTED] deposits employed; the permissible uses of the [REDACTED] deposits, whether for investment or other purposes; and any differences from [REDACTED] use of non-[REDACTED] deposits and [REDACTED] deposits; and
 - concerning internal audit or reconciliation procedures between [REDACTED] records and the [REDACTED].

In light of the [REDACTED] imminent testing, it would be helpful to have the requested materials as soon as possible, but in no event later than January 3, 2022. Please include the [REDACTED] [REDACTED] in the distribution of requested information. Should you have any questions regarding this request please contact Senior Case Manager [REDACTED] at [REDACTED] or Counsel [REDACTED] at [REDACTED].

Sincerely,

Steven P. Slovinski
Assistant Regional Director

cc: [REDACTED]



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

January 5, 2023

[REDACTED]
President and Chief Executive Officer
[REDACTED]

Subject: [REDACTED]

Dear [REDACTED]:

On September 14, 2022, the FDIC met with you and other members of management to discuss the bank's proposed [REDACTED] product and pilot launch. In our letter to you on March 25, 2022, we stated we had a number of questions based on the discussion and information provided to date. The September 14, 2022 meeting and additional comments received on September 20, 2022 and October 31, 2022, provided some useful additional information. During the meeting and in follow-up correspondence you expressed a desire to begin providing the product to [REDACTED]
[REDACTED]

We recognize the efforts by your institution to develop the [REDACTED] product. We also recognize that emerging crypto-related activities may present potential opportunities for financial institutions; however, these nascent activities also introduce significant safety and soundness risks for banking organizations and their customers, and may present potential systemic risk to the U.S. financial system. As discussed with you previously, the proposed [REDACTED] product raises several novel and complex considerations related to safety and soundness risks. Matters presenting significant risks include, but are not limited to: the use of a decentralized public blockchain; the financial institution operating as and relying on third-party nodes; and bank ownership, use, and holding of crypto-assets.

One area of particular concern related to [REDACTED] is the bank's ability to quantify, monitor, and control risk related to operating on the public [REDACTED]. The software runs across a decentralized, open network without customary governance mechanisms; importantly, there are no owners or board of directors/trustees with fiduciary responsibilities related to the network. Also, the bank would not be able to have a contract with [REDACTED]. Contracts are a critical tool for managing third-party risk as they establish and document specific expectations and obligations of both the financial institution and their technology service providers on a range of issues. For example, without a contract the bank may not be able to fully understand: (1) the responsibilities

██████████

regarding business continuity and may not have sufficient detail to manage that risk; (2) the responsibilities regarding network security such as software code security and incident notification to the bank, regulators, or law enforcement; and (3) the recourse available to the bank should service be disrupted. It is not clear how the bank's internal audit system could provide for adequate testing and review of such an information system.¹

The bank's reliance on third parties for validation of customer entries on a decentralized public blockchain to support its books and records is not only novel, it also raises critical questions regarding the safety and soundness of the proposal, including the adequacy of management information systems, internal controls, and information security.² For example, information security standards state that an institution's information security program shall be designed to ensure the security and confidentiality of customer information and protect against unauthorized access to or use of such information that could result in substantial harm or inconvenience to any customer. In contrast, a central element of the ██████████ proposal is publication of customer transactions on a public blockchain, with those transactions validated by third-party nodes. Although you have explained the bank would have the ability through the current operating rules of the public ██████████ to vet node operators that would validate its transactions, these node operators would not be operating under a service agreement or contract with the bank. Additionally, the bank has not thoroughly identified controls to mitigate the risk of unintended centralities.

Finally, the proposal contemplates the bank serving as a node on the public ██████████ ██████████. Node operators, including the bank, would be required to purchase crypto-assets to operate on the public ██████████ and would receive crypto-assets for their validation services. In response to our questions regarding the safety and soundness of holding such assets on the bank's books, you have emphasized that the amount would be small, as ██████████ have a minimal value. That may be the case at present, but it may not be in the future. As a class, crypto-assets have demonstrated significant volatility and have no intrinsic value, raising significant safety and soundness concerns as to their appropriateness as a bankable asset. Further, the bank has not addressed the legal permissibility of holding crypto-assets on its books, in any amount, under federal and state law.³ The bank's legal opinion did not specifically discuss the permissibility regarding the use of a public blockchain; the financial institution operating as and relying on third party nodes; or the bank's ownership, use, and holding of crypto-assets.

For the reasons outlined above, we are unable to determine that the bank has the ability to conduct the proposed ██████████ product or pilot in a safe and sound manner.

¹ See Appendix A to Part 364 of the FDIC's Rules and Regulations, Interagency Guidelines Establishing Standards for Safety and Soundness.

² See Appendices A and B to Part 364 of the FDIC's Rules and Regulations, Interagency Guidelines Establishing Standards for Safety and Soundness and Interagency Guidelines Establishing Standards for Information Security.

³ See Part 362 of the FDIC's Rules and Regulations, Activities of Insured State Banks and Insured Savings Associations.

[REDACTED]

This letter and its contents are confidential and intended only for the bank's internal use. The disclosure of such confidential supervisory information is governed by Part 309 of the FDIC Rules and Regulations.

Should you have any questions regarding this request please contact Assistant Regional Director Steven P. Slovinski at [REDACTED].

Sincerely,
Frank R. Hughes
Regional Director

cc: [REDACTED]



Federal Deposit Insurance Corporation
Division of Risk Management Supervision
Division of Depositor and Consumer Protection
600 North Pearl Street, Suite 700, Dallas, Texas 75201

Dallas Regional Office
Phone (214) 754-0098
Fax (972) 761-2082

August 8, 2022

Board of Directors
[REDACTED]

Subject: Third-Party Crypto-Asset Activity

Dear Members of the Board:

On February 22, 2022, we received [REDACTED] (the Bank) notification of the Bank's intent to offer customers the ability to buy, sell, and hold Bitcoin and Ethereum through the Bank's digital and mobile banking platforms in conjunction with [REDACTED] 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.

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 October 3, 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.

If you have any questions, please contact Case Manager [REDACTED] or [REDACTED] or Review Examiner [REDACTED]. Written correspondence should be addressed to Regional Director Kristie Elmquist at the Dallas Regional Office, and sent as a PDF document through the FDIC's Secure Email portal (securemail.fdic.gov) using the following e-mail address: DALMailRoom@fdic.gov.

Sincerely,

Signed by Joseph A. Meade

Joseph A. Meade
Assistant Regional Director

Enclosure

cc: [REDACTED]

Crypto-Asset Activity Request List

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, █████, 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. Any additional vendor management due diligence documentation and analysis related to both █████ and █████ including audits, financials, insurance, complaints, etc. that was not previously provided.
11. Description of what happens to customers' accounts or holdings of Bitcoin, Ethereum, or other crypto-assets if the bank does not continue or cancels offering the services provided by █████
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 █████ or the bank on the amount of Bitcoin, Ethereum, or other crypto-asset a consumer may purchase or sell (e.g. daily, weekly, monthly).
14. Description of the methodology that determines the price the consumer pays to █████ for Bitcoin, Ethereum, or other crypto-asset. This includes providing an explanation of how any market price is determined and how the spread, if any, is calculated.
15. 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)
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) with supporting documentation 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).

January 6, 2023

Board of Directors



Subject: **Response to Notification Regarding Crypto-Related Activities**

Dear Board of Directors:

On February 22, 2022, we received [REDACTED] (the Bank) notification of the Bank's intent to offer customers the ability to buy, sell, and hold Bitcoin and Ethereum through the Bank's digital and mobile banking platforms in conjunction with [REDACTED] in response to Financial Institution Letter (FIL), FIL-16-2022, Notification of Engaging in Crypto-Related Activities. On April 15, 2022, the FDIC sent a letter to the Board requesting that the Bank not proceed with implementation while the FDIC considered the proposed crypto-related activity. On August 8, 2022, the FDIC sent a letter to the Board requesting information necessary to allow the FDIC to assess the safety and soundness, consumer protection, and financial stability implications of such activities. During the December 5, 2022, Safety and Soundness examination, additional information was requested and meetings were held with Bank management to discuss the proposed activity.

In a subsequent email sent to the FDIC on December 22, 2022, Bank management stated that effective December 21, 2022, the Bank has terminated the agreement with [REDACTED] and the contract amendment relating to [REDACTED] with [REDACTED]. The email also stated [REDACTED] and [REDACTED] have accepted the Bank's request to withdraw from the project. The FDIC acknowledges the Bank's updated status related to this activity, and the April 15, 2022, FDIC letter to the Board has been superseded as a result of the Bank's December 22, 2022, communication to the FDIC. We request that the Bank notify this office if the status of this activity, or other crypto-related activity, changes in the future.

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/>.

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 Assistant Regional Director Joseph A. Meade at [REDACTED] or [REDACTED].

Sincerely,

Signed by Kristie K. Elmquist

Kristie K. Elmquist
Regional Director

cc: [REDACTED]
Federal Reserve Bank of Kansas City



Federal Deposit Insurance Corporation

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

New York Regional Office

April 25, 2022

Board of Directors

Subject: Questions Related to [REDACTED]

Dear Members of the Board:

On February 22, 2022, the FDIC, Office of the Comptroller of the Currency, and Board of Governors of the Federal Reserve System met with the [REDACTED] and its member banks at the time. 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, the FDIC has received revised information outlining three models under consideration for the [REDACTED] program.

In our letter to you on April 22, 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 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://securemail.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

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 7

Attachment – [REDACTED] Questions

CC: [REDACTED]
Federal Reserve Bank of New York

Questions

1. Governance and Structure of

- a. Describe the activities conducted by ; the assets held by the services provides to banks; and the relationship between and banks.
- b. Describe the governance in place for private protocol within the blockchain, including the processes for decision-making, key participants, and key personnel. In your response, indicate the extent to which (i) will participate in or exercise control over governance of private protocol within the blockchain; and (ii) participants on the private protocol could make decisions that would have binding effect with respect to , including over objections.
- c. Describe what role, if any, and will play in the governance of the .
- d. Describe what role, if any, non-member, participating banks will play in the governance of private protocol, including whether such banks will be restricted in conducting any activities related to the public blockchain.
- e. Provide the terms of the smart contract, the rules of the 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 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 members.
- h. Provide a list of the fees has already paid to , and estimated expenses moving forward. In your response, please clarify what the fees are for and whether there are expectations of periodic payments to .
- i. Discuss the permissibility of membership in 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 operates a node or is otherwise involved in validating transactions on the 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 private protocol are the same or different than nodes.
- k. Describe what involvement, if any, may consider in non-related activities of the blockchain.
- l. Identify the steps that would need to take if it chooses to exit the .
- m. Describe key third-party relationships that the and the will enter into with respect to activities. In your response, please address any

- contemplated relationships with [REDACTED], [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] 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], 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] are reflected on the balance sheet of [REDACTED]
- b. Explain whether and how the [REDACTED] themselves are or will be reflected on the balance sheet of [REDACTED]
- c. Explain whether reserves will be held in connection with the [REDACTED] 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]
- d. Provide example general ledger entries for [REDACTED]; 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] Bank's 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 [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] [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.

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

7. Use Cases.

- a. Provide a detailed description of planned and potential use cases for [REDACTED].
- b. Explain how the [REDACTED] differs from other bank-offered peer-to-peer payments platforms (e.g., [REDACTED]). Explain if the [REDACTED] interacts with any such platforms.
- c. Explain whether and how the [REDACTED] 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 [REDACTED] customers that elect to use [REDACTED] to conduct transactions.
- b. Describe the anticipated process for managing complaints from [REDACTED] customers related to [REDACTED].

- c. Explain any steps [REDACTED] will take to ensure consumers understand any difference in protections between [REDACTED] 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 [REDACTED] and the [REDACTED] will ensure such disputes are resolved in a timely basis and in accordance with network rules and applicable laws and regulations.
- e. Explain whether [REDACTED] or any other entity will indemnify customers for breaches to the wallets.
- f. Explain whether consumers are required to enter into an agreement with [REDACTED] (or another entity) to maintain a wallet.
- g. Describe any representations that [REDACTED] 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.



Federal Deposit Insurance Corporation

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

New York Regional Office

June 10, 2022

[REDACTED]
Executive Vice President & Chief Compliance Officer
[REDACTED]

Subject: Questions Related to [REDACTED] – Extension of Time

Dear [REDACTED]:

We received your letter dated June 7, 2022, regarding the questions sent to [REDACTED] Bank by the FDIC in our letter transmitted on April 25, 2022. The questions were related to [REDACTED] participation in the [REDACTED], and we requested responses by June 9, 2022. In your letter, you stated that you have prepared responses to the questions but are requesting an extension of time until June 20, 2022 to permit your Audit and Risk Committee to review and approve the responses prior to submission. We hereby approve this request. In the event that you are unable to provide responses by the June 20, 2022 extension date, please provide us with prior notice.

If you have any questions, please contact Case Manager [REDACTED]
[REDACTED]

Sincerely,

Ashley M. Amicangioli
Assistant Regional Director

CC: [REDACTED]
Federal Reserve Bank of New York



Federal Deposit Insurance Corporation

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

New York Regional Office

September 8, 2022

Board of Directors

Chairman & CEO

Subject: Response to Notification regarding Crypto Facilitation

Dear Members of the Board:

The FDIC acknowledges the notification provided by [REDACTED] (Bank) on April 26, 2022, regarding the Bank's intent to engage in crypto-related activities. Among other activity, this letter included a statement that the Bank was exploring opportunities to offer bitcoin services to customers through third parties. The notification stated that bank management had met with [REDACTED] and was in the process of vetting the [REDACTED] for financial institutions. The notification was provided pursuant to Financial Institution Letter *FIL-16-2022, Notification of Engaging in Crypto-Related Activities*. FIL-16-2022 requests that all FDIC-supervised institutions that intend to engage in, or 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.

In an update call with the FDIC on July 26, 2022, Bank management stated that this activity (offering Bitcoin services to customers through third parties) had been paused with no definitive timeframe for revisiting this activity. The FDIC acknowledges the Bank's updated status related to this activity. We request that the Bank notify this office if the status of this activity, or other crypto-related activity, changes in the future.

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/>.

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 Assistant Regional Director Ashley M. Amicangioli at [REDACTED].

Sincerely,
Jessica Kaemingk
Acting Regional Director

CC: [REDACTED]



November 21, 2022

Board of Directors

**Subject: June 20, 2022 Response to [REDACTED] Questions and
Node and [REDACTED] Activity Permissibility**

Dear Members of the Board:

On June 20, 2022, the FDIC received the bank's response to our April 25, 2022 request for information (Correspondence). Please note, although we acknowledge receipt of the bank's Correspondence, such acknowledgement does not constitute non-objection. We expect that the bank will satisfactorily address our questions to ensure the bank will be engaging in the contemplated activities in a safe and sound manner.¹ We are reviewing the Correspondence and may request additional information during this review.

During our review of the Correspondence, it has come to our attention that the bank currently holds approximately [REDACTED] a token that will be used for transactions, staking, and grants on the [REDACTED] Blockchain. The [REDACTED] Blockchain is the platform [REDACTED] plans to use for transfers. The bank's [REDACTED] tokens were granted on February 1, 2022, in connection with the bank's [REDACTED] membership, and are recorded [REDACTED]. The Correspondence also indicates that because the Bank [REDACTED] [REDACTED]. The Correspondence states that although there are no definitive plans to do so at the present time, the bank may purchase additional [REDACTED] to hold in reserve through cash purchases.

The Correspondence indicates the bank will not validate transactions on the [REDACTED] Blockchain but may operate a [REDACTED] Sentry Node (Sentry Node) to facilitate certain [REDACTED] activities. The Sentry Node is managed and supported by [REDACTED] and is used to read and store a copy of the [REDACTED] ledger for business continuity purposes, for operational monitoring and reporting, and for second and third line verification purposes (*i.e.*, to preserve and cross-validate applicable on-chain transaction information in the event of any service disruption) and as needed or desired for auditing, monitoring, or other reporting purposes.

In response to the FDIC's question regarding whether the bank's membership in the [REDACTED] is permissible under section 24 of the Federal Deposit Insurance Act and part 362 of

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

the FDIC Rules and Regulations (Part 362),² the Correspondence referred us to section 4.5 of the [REDACTED] Legal Reference Manual (Legal Manual). This section of the Legal Manual discusses the permissibility of the bank's ownership of a non-controlling interest in the [REDACTED]; however, it does not discuss the permissibility of holding [REDACTED] tokens or operating a Sentry Node. Furthermore, it does not appear that the Office of the Comptroller of the Currency has specifically addressed the permissibility of either of these activities for a national bank.

As a result, the bank should file an application in accordance with Part 362 requesting the FDIC's consent to hold the [REDACTED] on the bank's balance sheet and obtain the prior consent of the FDIC under Part 362 before acquiring any additional [REDACTED]. With regard to the proposed activity of operating a Sentry Node, the bank is requested to either provide the FDIC with the documentation contemplated by FDIC FIL-54-2014, *Filing and Documentation Procedures for State Banks Engaging, Directly or Indirectly, in Activities or Investments That Are Permissible for National Banks*, dated November 19, 2014, for our review (in the event the OCC has specifically addressed the permissibility of this activity for a national bank) or seek and receive the prior consent of the FDIC under Part 362 for this activity. The required contents of a Part 362 filing are outlined under Section 303.121(b) of the FDIC Rules and Regulations.³ In addition, each submission should include a satisfactory signed legal opinion regarding the permissibility of the proposed activity for the bank.

As noted above, we continue to review and assess the bank's responses and information provided. As part of that process, we may have additional questions and follow-up correspondence and direction associated with the permissibility of the activities.

Written correspondence should be addressed to Frank R. Hughes, Regional Director, FDIC, New York Regional Office, and sent as a PDF document through the FDIC's Secure Email portal (<https://securemail.fdic.gov/>) to the New York Regional Office Mail Room using the following email address: NYMailRoom@FDIC.gov. Information about how to use secure email and FAQs about the service can be found using the link above.

This letter and its contents are confidential and intended only for the bank's internal use. The disclosure of such confidential supervisory information is governed by Part 309 of the FDIC Rules and Regulations.

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

Sincerely,
Frank R. Hughes
Regional Director

cc: [REDACTED]
Federal Reserve Bank of New York

² 12 U.S.C. § 1831a; 12 CFR part 362.

³ 12 CFR § 303.121(b).



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

New York Regional Office

SENT VIA SECURED ELECTRONIC MAIL

September 22, 2023

Board of Directors

Chairman of the Board and Chief Executive Officer

Via Secure Email

Subject: Changes and Updated Information Request

Dear Members of the Board:

On August 31, 2023, [REDACTED] representatives met with the FDIC and outlined substantial proposed changes to the [REDACTED] framework. Those changes included the planned selection of a new distributed ledger technology vendor in order to move to a private, permissioned blockchain with centralized validation and without a native token, gas fees, or connectivity with non-bank ecosystems. The [REDACTED] representatives discussed potential use cases and plans to present a proposal of a limited set of tests after selection of a new distributed ledger technology vendor.

In light of the substantial proposed changes, please provide an updated notification (to the notification provided on April 26, 2022, in response to Financial Institution Letter 16-2022), including a detailed description of the proposed solution and activity, as well as responses to the previously requested information and documents that reflect these changes. In addition, please also provide an updated project timeline, project plan, and testing proposal. The FDIC will await the Bank's submission. Pending receipt of updated information, the FDIC will not provide follow-up requests or supervisory feedback related to the previous notification.

As a reminder, written correspondence should be addressed to Frank R. Hughes, Regional Director, FDIC, New York 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: NYMailRoom@fdic.gov. Information about how to use secure email and FAQs about the service can be found at <https://www.fdic.gov/secureemail/>.

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 Senior Case Manager [REDACTED] at [REDACTED] or [REDACTED]

Sincerely,

Frank R. Hughes
Regional Director

cc: [REDACTED]



Federal Deposit Insurance Corporation
Division of Risk Management Supervision
350 Fifth Avenue, Suite 1200, New York, NY 10118

October 24, 2024

██████████
Chief Brand and Innovation Officer
██

Subject: ██████████ – Proof of Concept Exercise

Dear ██████████:

We acknowledge the notification provided by ██████████, by letter dated April 25, 2024, regarding the bank's potential indirect participation, as a member of the ██████████ ██████████, in a proof of concept exercise for shared ledger technology to settle tokenized central bank money, commercial bank money, and Treasury securities through the Regulated Settlement Network. The notification was provided pursuant to 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.

By email dated August 29, 2024, Chief Compliance Officer ██████████ provided our offices with notification that the ██████████ is in the process of liquidating and has ceased the development of the proposed payment system. We acknowledge the bank's updated status regarding this activity.

With regard to the bank's April 25, 2024, notification pursuant to FIL 16-2022, the FDIC's review is now officially complete and therefore prior correspondence is superseded given that the bank is no longer proposing to engage in the ██████████ proof of concept exercise. We request that the bank notify our offices if the status of this activity, or other crypto-related activity, changes in the future.

This letter and its contents are confidential and intended only for the bank's internal use. The disclosure of such confidential supervisory information is governed by Part 309 of the FDIC's Rules and Regulations and ██████████

October 24, 2024

If you have any questions or concerns regarding the content of this letter, please contact
FDIC Senior Case Manager [REDACTED] at [REDACTED] or [REDACTED] Chief
Examiner [REDACTED] at [REDACTED]

-

Sincerely,

/s/ John F. Vogel

[REDACTED]

John F. Vogel
Regional Director
Federal Deposit Insurance Corporation

[REDACTED]
Chief Examiner

[REDACTED]

cc: Federal Reserve Bank of New York



Federal Deposit Insurance Corporation
600 North Pearl Street, Suite 700 Dallas, TX 75201

Dallas Regional Office

SENT VIA SECURED ELECTRONIC MAIL

September 26, 2022

Board of Directors
[REDACTED]

Subject: Third-Party Crypto-Asset Activity

Dear Members of the Board:

On March 23, 2022, we received President and Chief Executive Officer [REDACTED] submission that provided high-level information relating to the subject. Specifically, the submission described [REDACTED] (the Bank) intent to offer its customers the ability to buy, sell, and hold Bitcoin through the Bank's third-party arrangement with [REDACTED]. [REDACTED] Financial Institution Letter (FIL), FIL-16-2022, *Notification of Engaging in Crypto-Related Activities*, 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.

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 help us continue that assessment, please provide the information in the attached request list by November 25, 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 assessment. When we have completed our assessment, the FDIC will provide the institution with relevant supervisory feedback, as appropriate.

If you have any questions, please contact Case Manager [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/>.

September 26, 2022

[REDACTED]
Subject: Third-Party Crypto Asset Activity

Sincerely,

Kristie K. Elmquist
Regional Director

Enclosure

cc: [REDACTED]

Crypto-Asset Activity Request List

Documentation (Prospective/Beta/Live):

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 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 among 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 or other crypto-asset 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 or other crypto-asset. This includes providing an explanation of how any market price is determined and how the spread, if any, is calculated.
15. 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)
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. Internal training materials related to the activity.
22. Policies and procedures that will govern the crypto-related activity, including those related to consumer compliance and complaint resolution.
23. 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).

Documents ***(Live/Beta Programs only)***:

24. Volumes to include: 1) number of active accounts using this service through bank, 2) total number and dollar volume of buy transactions completed (since implementation), and 3) total number and dollar volume of sell transactions completed (since implementation).



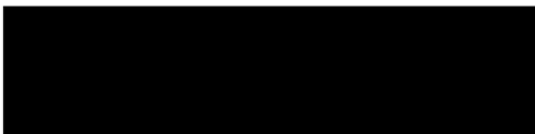
Division of Risk Management Supervision
Division of Depositor and Consumer Protection

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

SENT VIA SECURED ELECTRONIC MAIL

January 9, 2023

Board of Directors



Subject: Response to Notification Regarding Crypto Facilitation

Dear Members of the Board:

On February 25, 2022, we received President and Chief Executive Officer [REDACTED] III's letter providing high-level information on the bank's intent to offer its customers the ability to buy, sell, and hold Bitcoin through the bank's digital and mobile banking platform in conjunction with [REDACTED]. On March 11, 2022, the FDIC sent a letter to the Board requesting that the bank pause all crypto-related activity while the FDIC considered the proposed activity. On September 26, 2022, consistent with Financial Institution Letter (FIL) FIL-16-2002, *Notification of Engaging in Crypto-Related Activities*, the FDIC sent a letter to the Board requesting information necessary to allow the FDIC to assess the safety and soundness, consumer protection, and financial stability implications of the proposed crypto-related activity.

In correspondence to the FDIC dated December 12, 2022, Executive Vice President [REDACTED] indicated that the bank has decided to no longer pursue the crypto-related activity with [REDACTED] at this time. The FDIC acknowledges the bank's updated status related to this activity, and the March 11, 2022 and September 26, 2022 FDIC letters to the Board have been superseded as a result of the Bank's December 12, 2022 communication to the FDIC. However, please notify this office if the status of this activity or any other proposed crypto-related activity changes in the future.

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 questions, please contact Case Manager [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/>.

Sincerely,

Kristie K. Elmquist
Regional Director

cc: [REDACTED]



Federal Deposit Insurance Corporation

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

New York Regional Office

October 4, 2021

Via secure email

██████████
Chairman and CEO
████████████████████

Subject: Potential Cryptocurrency Activities outlined in May 25, 2021 *Cryptocurrency Discussion Presentation* materials and discussed in the July 20, 2021 correspondence from ██████████

Dear ██████████:

New York Regional Office (NYRO) staff reviewed the May 25, 2021 *Cryptocurrency Discussion Presentation* materials (Crypto Presentation) and the July 20, 2021 letter from ██████████ (Letter) regarding certain cryptocurrency related products and services (Crypto Products) being considered by ██████████. The Letter states that, in their view, the Crypto Products are permissible for a national bank and therefore permissible for a state-chartered bank such as ██████████. As a result, the Letter states that no Part 362 application is required. The Crypto Products specifically listed are:

- (i) warehouse loans to cryptocurrency providers collateralized by cryptocurrencies;
- (ii) merchant acquiring services involving cryptocurrencies (merchant clients would be able to accept designated cryptocurrencies from customers engaged in electronic commerce transactions);
- (iii) cryptocurrency custody services for ██████████ customers;
- (iv) staking and exchanging services for certain cryptocurrencies by ██████████ accountholders; and
- (v) ██████████ stablecoin.

In our review of the Crypto Presentation and the Letter, NYRO staff found only very high-level descriptions of Crypto Products under consideration by ██████████. These descriptions were not sufficiently detailed to reach any conclusions on whether the Crypto Products, if and when offered by ██████████, would fall within the scope of the Interpretive Letters and Conditional Approvals referenced in the Crypto Presentation and the Letter. As a result, NYRO staff cannot confirm that the Crypto Products being considered are permissible or that no Part 362 application is required.

As you may be aware, the Acting Comptroller of the Currency, Michael Hsu, has requested that his staff review these Interpretive Letters and Conditional Approvals. The Office of the

Comptroller of the Currency (OCC) has not yet indicated what, if any, changes will be made to these Interpretive Letters and Conditional Approvals and, therefore, what ultimately will be permissible for a national bank in connection with the Crypto Products and other products and services related to cryptocurrency. This area continues to evolve, and [REDACTED] should keep itself apprised of developments. Additionally, if an activity or investment has been deemed permissible for a national bank (or its subsidiary) but is subject to certain conditions or restrictions imposed by the OCC, a state-chartered bank must also abide by those conditions or restrictions if it wishes to engage in the activity or investment without first obtaining the FDIC's consent through the process outlined in Part 362 of the FDIC Rules and Regulations.¹

Neither the Crypto Presentation nor the [REDACTED] Letter indicated whether the Crypto Products were permissible or authorized under applicable [REDACTED] laws and regulations or whether the views of the [REDACTED] had been sought with respect to the Crypto Products. Any activity engaged in by [REDACTED] must be permissible under the laws and regulations of [REDACTED], and [REDACTED]'s views should be solicited. Once obtained, please share [REDACTED]'s view with the NYRO.

Finally, and as noted in the [REDACTED] Letter, [REDACTED] must have "appropriate risk management practices to ensure the activities are conducted on a safe and sound basis" in place prior to offering any of the Crypto Products. Commensurate risk management practices are a critical aspect to entering into any new product or service. As you are aware, these risk management practices must ensure compliance with all applicable laws and regulations, such as the Bank Secrecy Act and those protecting consumers.

[REDACTED] has stated its intention of sharing plans related to the Crypto Products with the regulators. We look forward to further conversations and to the receipt of any planning documentation related to the Crypto Products well in advance of any proposed implementation.

Should you have any questions regarding this letter please contact Senior Case Manager
[REDACTED]

Sincerely,
Jessica A. Kaemingk
Deputy Regional Director

cc: [REDACTED]

¹ See Financial Institution Letter: Filing and Documentation Procedures for State Banks Engaging, Directly or Indirectly, in Activities or Investments That Are Permissible for National Banks, FIL-54-2014 (November 19, 2014); and 12 C.F.R. Part 362.



Federal Deposit Insurance Corporation
Division of Risk Management Supervision
350 Fifth Avenue, Suite 1200, New York, NY 10118

May 18, 2023

Board of Directors

Subject: Crypto-Assets Visitation

Dear Board Members:

This letter summarizes the findings of the July 11, 2022 Crypto-Assets Visitation (Visitation). The Visitation was conducted jointly by the FDIC Divisions of Risk Management Supervision (RMS) and Depositor and Consumer Protection (DCP), and the [REDACTED]. The objective of the Visitation was to conduct a pre-implementation review of [REDACTED] planned crypto-asset related initiatives to assess the safety and soundness, consumer protection, and financial stability implications of such activities.

In accordance with FDIC Financial Institution Letter (FIL) 16-2022, *Notification of Engaging in Crypto-Related Activities*, issued on April 7, 2022, [REDACTED] formally notified the FDIC and [REDACTED] of its intent to lend fiat currency collateralized by crypto-assets, offer crypto-asset custodial services, and facilitate customer access to a crypto-asset buy, sell, and trade program in May 2022.¹ However, the ensuing crypto-asset market volatility prompted management to postpone the crypto-asset secured lending pilot program and focus solely on a crypto-asset custody, buy, sell [REDACTED] initiative. As a result, the Visitation scope was limited to a review of the proposed crypto-asset [REDACTED] program.

To assess the risks associated with the planned crypto-asset [REDACTED] activity, examiners reviewed the strategic plan, risk assessments, project plans, third party due diligence memoranda, policies and procedures, consumer disclosures and marketing materials, and Board presentations. Examiners also reviewed staffing and resources, Enterprise Risk Management oversight, and audit coverage of the proposed activities. All of these areas were reviewed from multiple perspectives, including financial, Anti-Money Laundering/Countering the Financing of Terrorism, Information Technology, and consumer compliance.

¹ In presentations to the FDIC New York Regional Office and [REDACTED] in 2021 and early 2022, [REDACTED] had also discussed other potential crypto-asset related activities, including permitting [REDACTED] accountholders to trade and stake cryptocurrencies, expanding merchant acquiring services to accept certain cryptocurrencies, and offering a [REDACTED] issued stablecoin. However, [REDACTED] management subsequently paused these initiatives and did not include them in their May 2022 notification.

The findings of the Visitation indicate that risk management processes and controls for the crypto-asset [REDACTED] program have not been fully developed, implemented, or internally tested. Many of the documents provided by management during the Visitation were incomplete and had not been fully vetted by key stakeholders. Other key items, particularly publicly facing documents, including consumer disclosures and the [REDACTED] customer interface, have not been developed. In addition, the May 3, 2021 FDIC Compliance Examination and the October 12, 2021 Joint Safety and Soundness Examination determined that risk management practices need improvement in several areas, the remediation of which will require the dedication of significant resources to existing business activities and operations. For these reasons, we are unable to conclude that [REDACTED] has the ability to conduct the proposed crypto-asset [REDACTED] program in a safe, sound, and compliant manner.

Subsequent to the Visitation, on October 7, 2022, [REDACTED] emailed the FDIC and [REDACTED] to confirm that it had suspended the crypto-asset [REDACTED] initiative, and examiners have confirmed that crypto-asset activities are not contemplated in the 2023-2025 Strategic Plan. However, on March 21, 2023, [REDACTED] provided notification of its intent to provide a bank account to [REDACTED] for the purpose of holding deposit reserves corresponding to [REDACTED]'s issuance of a stablecoin. As noted in the May 5, 2023 FDIC Information Request related to this proposed activity, [REDACTED] should not proceed with any crypto-asset activity until such time that the FDIC and [REDACTED] have determined [REDACTED]'s ability to implement the activity in a safe and sound manner.

This letter is confidential and intended only for the bank's internal use. The disclosure of such confidential supervisory information is governed by Part 309 of the FDIC Rules and Regulations and [REDACTED]. Should you have any questions or concerns regarding the content of this letter, please contact FDIC RMS Senior Case Manager [REDACTED] at [REDACTED], FDIC DCP Senior Review Examiner [REDACTED] at [REDACTED], or [REDACTED] Chief Examiner [REDACTED] at [REDACTED].

Frank R. Hughes
Regional Director
Federal Deposit Insurance Corporation

Sincerely,
[REDACTED]

cc: Federal Reserve Bank of New York



Federal Deposit Insurance Corporation

350 Fifth Avenue, Suite 1200

New York, New York 10118

New York Regional Office

July 23, 2024

Board of Directors

Subject: Notification of Engagement in Crypto-Related Activities

Dear Board Members:

We are writing to provide supervisory feedback in response to the notification provided by [REDACTED] (Bank) on March 21, 2023, regarding the Bank's intent to maintain stablecoin reserves. The notification was provided pursuant to FDIC Financial Institution Letter (FIL) 16-2022, *Notification of Engaging in Crypto-Related Activities*. FIL 16-2022 requested that an FDIC-supervised institution that engages, or intends to engage, in any crypto-related activities notify the FDIC and provide any information requested by the FDIC to allow the agency to assess the safety and soundness, consumer protection, and financial stability implications of such activities.

We acknowledged receipt of the notification letter on May 5, 2023, and requested additional information, which was provided by the Bank on May 31, 2023. We further stated that the Bank should not proceed with any crypto-asset activity until such time that the FDIC has determined the Bank's ability to implement the activity in a safe and sound manner. We had previously responded, on June 22, 2022, to the Bank's May 20, 2022 notification of its intent to engage in activities involving digital assets, such as crypto custody, lending, and buy/sell program. The FDIC's June 22, 2022 letter also informed the Bank that the FDIC had a number of questions and asked the Bank to address those questions in advance of implementation of the proposed activities, in order for the FDIC to assess the safety and soundness of the proposed activities and compliance with laws and regulations.

In the March 2023 letter, the Bank proposes to provide an account for the purpose of holding US dollar deposits placed by [REDACTED] corresponding to [REDACTED]'s issuance of [REDACTED], known as a crypto-asset. The deposits are represented by [REDACTED] as reserves backing [REDACTED] and [REDACTED]'s redemption commitments to end-customers and holders of [REDACTED]. The Bank's Board of Directors has approved plans to hold up to [REDACTED] reserves on deposit, with the [REDACTED] reserve funds initially kept overnight at the Federal Reserve. However, as market conditions evolve, the Bank stated that it may revise its cash and treasury management strategy. The Bank stated that it will not custody, transfer, or otherwise facilitate the movement of crypto-assets.

The Bank prepared a [REDACTED] Stablecoin Reserve Activity Risk Assessment (Risk Assessment) to evaluate and document the risks associated with the proposed crypto-related activity. The Risk Assessment assigned an overall residual risk rating of "low" based on the Bank's ability to manage

[REDACTED]

July 23, 2024

the liquidity risk of the proposed activity. However, the Risk Assessment does not adequately address the potential liquidity impacts of changes in end-user customer activity and crypto-asset sector volatility. In addition, the Risk Assessment does not identify any controls that have been established to prevent [REDACTED] reserve funds from being used in the Bank's business operations.

The Risk Assessment also concluded that the Bank's review of [REDACTED]'s Bank Secrecy Act/Anti-Money Laundering (BSA/AML) program served to mitigate compliance risk associated with the proposed activity. However, in January 2024, the Bank took action to exit its wire transfer and ACH relationship with [REDACTED] due to excessive money laundering risk and concerns about [REDACTED] customer due diligence controls. In addition, the Risk Assessment does not address consumer compliance risks. The 2021 Consumer Compliance Report of Examination issued on September 14, 2022, describes how the Board and management oversight and compliance program components of the Bank's compliance management system (CMS) are weak. These weaknesses are reflective of a CMS that is seriously deficient at managing consumer compliance risk. As such, we are unable to conclude that the Bank has properly identified, measured, monitored, and controlled the compliance risks associated with the proposed crypto-related activity.

Collectively, the weaknesses related to liquidity and compliance risk management preclude the FDIC from concluding that the Bank has the ability to conduct the proposed crypto-related activity in a safe, sound, and compliant manner at this time.

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 Assistant Regional Director Ashley M. Amicangioli at [REDACTED]

Sincerely,
John F. Vogel
Regional Director



Federal Deposit Insurance Corporation

25 Jessie Street at Ecker Square, Suite 2300
San Francisco, California 94105

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

Sent via secure email

August 14, 2023

Board of Directors

Subject: Crypto-Asset Activity Review Supervisory Feedback Letter (Letter)

Dear Members of the Board:

On June 30, 2021, [REDACTED] engaged in a Statement of Work (SOW) with its core service provider, [REDACTED], to develop a crypto-asset service offering with third party provider [REDACTED]. [REDACTED] is a subsidiary of [REDACTED] (collectively, with affiliates and subsidiaries, referred to as [REDACTED]). The SOW is focused on [REDACTED] building a technology solution directly with [REDACTED]'s application program interfaces (APIs) that would ultimately allow [REDACTED]'s online deposit account customers the ability to buy, sell, and hold an ownership interest in bitcoin using the [REDACTED] Bitcoin Trading Platform (Platform). The Bank continues to evaluate the Platform and has conducted beta testing by Bank employees.

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. An initial discussion on the Platform was held between the FDIC and Bank management in May 2021 followed by several subsequent discussions beginning in April 2022. 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 crypto-related activities. In order to begin those assessments, in April and October of 2022, the FDIC requested additional documentation from the Bank, including policies, processes, and controls established and maintained in relation to this crypto-related activity. This Letter provides supervisory feedback relative to the consumer protection and risk management considerations of the proposed crypto-related activity.

Since the completion of our review, [REDACTED] issued a Notice of Termination electing to terminate the existing agreement with [REDACTED]. In its correspondence to the Bank, [REDACTED] indicated that they will communicate specific timing and details of winding down the service, and it is our understanding that the Board will be voting on winding down the [REDACTED] initiative at the upcoming August 29, 2023 Board meeting. Despite the likely and eventual wind down of the

initiative, we are issuing this feedback letter to help inform the Bank's third party risk management practices.

BACKGROUND

Crypto-related activities may pose safety and soundness and consumer protection risks to the institution and its customers. The *Joint Statement on Crypto-Asset Risks to Banking Organizations* (Joint Statement), issued on January 3, 2023 by the FDIC, the Board of Governors of the Federal Reserve System, and the Office of the Comptroller of the Currency, may serve as a useful resource for the Board and management regarding crypto-asset risks. Recent events across the crypto-asset sector have been marked by significant volatility and have exposed vulnerabilities in the sector. These events highlight a number of key risks associated with crypto-assets and crypto-asset sector participants that banking organizations should be aware of, including those outlined in the Joint Statement.

The types and levels of risks are dependent on the type of activity, implementation of the activity, and controls designed to mitigate risks. Examples of risks that may be present include, but are not limited to, compliance, legal, operational, third party, and strategic. Facilitating customer crypto-asset trading alongside traditional banking products and services may also present heightened risk to the Bank's customers, such as:

- Confusion about the role of the financial institution in crypto transactions;
- Lack of understanding about the nature and risks associated with crypto-asset products;
- Inability to differentiate between nondeposit products and traditional banking products, such as deposit accounts; and,
- Misunderstanding the applicability of Federal deposit insurance coverage.

Part 328, subpart B of the FDIC's Rules and Regulations, titled "False Advertising, Misrepresentation of Insured Status, and Misuse of the FDIC's Name or Logo," applies to any person, including non-banks, such as crypto-asset companies. (See 12 CFR Part 328, subpart B.) Accordingly, the Bank should determine if its third-party risk management policies and procedures effectively manage crypto-related risks, including compliance risks related to Part 328, subpart B. In addition, the FDIC's *Advisory to FDIC-Insured Institutions Regarding FDIC Deposit Insurance and Dealings with Crypto Companies*, issued on July 29, 2022, through FIL-35-2022, may also serve as a useful resource for the Board and management regarding risks and concerns arising from crypto-assets offered by, through, or in connection with, insured depository institutions.

SUPERVISORY FEEDBACK SUMMARY

While management is commended for taking numerous actions, such as developing policies, progress reports, and testing requirements, a number of risks have either not been fully assessed or have not been fully reviewed based on risk assessment findings. Other weaknesses include limited due diligence processes and a Digital Asset Policy that does not establish meaningful

standards, processes, or controls, as well as financial projections that lack supportable assumptions. While the Bank has some Compliance Management System (CMS) controls in place to evaluate the risks applicable to the Platform, the Board and management did not fully enhance the CMS to sufficiently consider and mitigate consumer compliance risks involved with facilitating customer crypto-asset trading alongside traditional banking products and services.

Given the unique nature and evolving risks associated with the Bank's role in offering products that are not FDIC-insured through the Platform alongside existing FDIC-insured bank deposit products, management should perform a robust risk assessment, a comprehensive contract review, and rigorous vendor due diligence prior to offering this new service to customers. The Board should ensure appropriate policies and procedures are in place to govern the activity, including ongoing monitoring requirements and appropriate oversight of management and staff responsible for the Platform, and provide approvals with due consideration of necessary assessments and analysis, in accordance with Bank governance procedures. In addition, the Board should enhance the CMS to ensure the risks of consumer harm from the Platform are appropriately identified and mitigated. Failure to enhance the CMS could result in consumer confusion about the nature and risks associated with crypto-assets and result in consumer harm.

DETAILED FINDINGS AND FEEDBACK

Risk Assessments and Vendor Due Diligence

Management outsourced almost all of the risk assessment and due diligence processes to [REDACTED] and [REDACTED].

[REDACTED]. Management noted that external parties were engaged to help bolster staff knowledge and provide an external perspective. This decision was also influenced by management indicating that their knowledge of crypto-assets was more focused on consumer risks rather than institutional risks for onboarding this type of product.

While management has since broadened their knowledge around crypto-assets and hired additional staff with specific crypto-related skillsets, as described below, a number of risk assessment and due diligence areas were not fully reviewed. In addition, management has not implemented a formal process to track or monitor findings and recommendations from these external reports, which need to be developed going forward. Lastly, while management noted that their due diligence prior to selecting the firms was based on conversations as well as past engagements, no formal documentation was retained to demonstrate the external parties' experience with this novel arrangement. The following concerns are noted with the risk assessment and due diligence process.

[REDACTED] Risk Assessment

[REDACTED] performed a risk assessment that evaluated traditional banking areas such as liquidity risk, market risk, compliance risk, and Anti-Money Laundering/Countering the Financing of

Terrorism (AML/CFT) risk. While [REDACTED] provided a narrative regarding each of the rating factors, a rating scale or detailed narrative to support the final conclusion was not included or described. Furthermore, residual risk areas lacked specific or actionable details that management could initiate to further reduce the level of risk exposure. Examples (not all inclusive), of areas with limited or inaccurate information to support an overall rating are as follows:

- Liquidity Risk: Both inherent and residual liquidity risk were identified as low; however, multiple references of liquidity reports performed by the Bank with crypto-asset assumptions were not located. This includes reviews by treasury management, a third party risk review, and liquidity risk modeling reports.
- Market Risk: Both inherent and residual market risk were identified as low; however, no consideration is given to potential volume impacts that could not only arise from price volatility but also from macroeconomic factors.
- Credit Risk: Several risk mitigants outlined for credit risk are inaccurate or not supported:
 - [REDACTED] was not operating at the time the risk assessments were completed, and there was no look-back or updated review of [REDACTED]'s financial condition once the Bank contracted with the entity. The financial analysis was of the consolidated [REDACTED] entity, without analysis of [REDACTED] or its potential reliance on the strength of its parent or other affiliates for support. This is particularly relevant as the Vendor Financial Review reports negative cash flow and high leverage. To fully inform management and the Board, the risk assessment should acknowledge that the entity had not been established and had no financial condition to assess, which would allow the Bank to determine appropriate controls, as applicable.
 - The risk assessment indicates that oversight provided by the [REDACTED] is a mitigating factor for credit risk. However, while [REDACTED] affiliates have certain [REDACTED] from [REDACTED], [REDACTED] is not overseen by [REDACTED]. Furthermore, it is not clear how oversight by [REDACTED] is a mitigating factor for credit risk, which is also listed as a mitigant for operational, compliance, and reputation risk.
 - "[REDACTED]" is noted as a mitigating factor. However, neither [REDACTED] nor its parent hold a trust charter.
- Compliance Risk:
 - "[REDACTED]" of the risk assessment
 - States, "[REDACTED]" However, as noted above, [REDACTED] is not an [REDACTED]-regulated entity. The August 2020 BSA/AML audit reviewed by [REDACTED] does not clearly reflect that [REDACTED] was included in the scope of the audit. [REDACTED] was not formed until March 2021, well after the audit was performed.
 - Outlined that the Bank's transaction monitoring system cannot identify transactions and that improvements are needed prior to launch. The

October 2022 Project Rollout Plan reflects that testing of the transaction monitoring system was in progress. It is not clear whether necessary improvements have been implemented.

- “ [REDACTED] ” of the risk assessment
 - States that the Bank and [REDACTED] agree to mitigate consumer confusion by providing clear disclosures around fees “ [REDACTED] ”. However, no other Bank-developed disclosures were provided for review.
 - Does not identify potential non-compliance with Part 328 of the FDIC’s Rules and Regulations as a consumer protection compliance risk. For example, in assessing potential risks related to Part 328, the Bank should consider the restrictions on using the official advertising statement when advertising nondeposit products and the prohibitions against misrepresentations about deposit insurance and the misuse of the FDIC’s name or logo, with respect to representations regarding bitcoin.

[REDACTED]’s risk assessment also did not include assessments on various key risk areas such as settlement, third party, contract, marketing, ownership, legal, affiliate, and pricing/spread. The risk assessment also does not reflect implications of various contractual responsibilities and liability, including the following:

- ensuring that instructions to purchase or sell are promptly and accurately transmitted;
- ensuring that end users have “good funds”;
- holding and transferring funds at settlement;
- being liable for the amount of [REDACTED]’s net losses incurred due to settlement failure;
- maintaining security of the settlement account;
- conducting a Customer Identification Program;
- completing transaction monitoring and sanctions screening for [REDACTED];
- providing consumer-facing trade interfaces;
- delivering [REDACTED] customer disclosures;
- providing customer service; and
- performing complaint monitoring and resolution.

Management should ensure an appropriate risk assessment incorporates an enterprise-wide focus of the activity, entity, contractual obligations, and controls. Given the novel nature of the proposed activity, risk assessments should incorporate areas that demonstrate a complete understanding of the resulting arrangement. Such reviews should ensure information in the risk assessment is accurate with mitigating controls. In addition, management should document due diligence performed on external firms to ensure a company has the experience and wherewithal to appropriately assess a product. Failure to conduct appropriate risk assessments and due diligence reviews could lead to undetected risks, or the inability to establish mitigating controls, outside the Board’s risk appetite.

Due Diligence

performed the vendor due diligence assessments on areas such as cold storage system and organization controls (SOC) reports, financials, reputation, information security and privacy, and business resilience. Each report includes information on what was reviewed as well as a final assessment on the area. The following concerns are reflective of a lack of support for certain ratings by :

- The financial review rated and its subsidiaries as adequate, despite net losses and high leverage . The review document does not outline which metrics are reflective of an 'adequate' versus 'watchlist' rating, the latter of which is defined as "financial concerns noted warrant ongoing monitoring." Given these factors, an 'adequate' rating lacks support.
- The information security and privacy risk review lists a series of items, such as whether certain programs (such as information security, incident response, vendor risk management) are in place and a high level list of the security protocols and controls are established. However, the review does not address, analyze, or document whether the information security, incident response, and vendor risk management programs or the controls are appropriate, and instead lists page numbers of 'source reference' which appear to be the SOC reports. However, the SOC reports are limited to a review of the cold storage solution.
- The cybersecurity review outlines whether a number of practices are in place, but is limited to listing the page number of the 'source reference' document. The review does not document the adequacy of those practices and relies primarily on the SOC reports, which are limited to the cold storage solution, and on 's Compliance Manual.
- The review does not assess key operational functions beyond information security, privacy, and resilience, such as the information technology solution interfacing with the Bank and consumers, transactional functions, recordkeeping functions, or settlement functions, which may introduce both operational and transaction risk.

Furthermore, management has not formally tracked or addressed any of the findings. For example, multiple assessments indicated that certain areas could either not be assessed by or that additional follow-up was necessary. Management did not track, follow-up, or monitor these findings. Examples include, but are not limited to:

- If 's source code is deposited in escrow to allow a client to continue the service if the vendor is no longer able to.
- If business continuity tests at are communicated with the Bank.
- If client data is segregated at from their other clients.

In addition, ' due diligence related to cold storage identified various areas " . Those include specific segments such as physical security, data security, and data breach management. While these areas do not necessarily mean there is a

concern with [REDACTED], [REDACTED] or their related entities, management has not further assessed these unconfirmed segments. In addition, the cold storage risk assessment includes a variety of carve outs from third party vendors.

Management should ensure appropriate due diligence is performed. This includes reassessing the various findings within [REDACTED]' review, including certain controls that did not operate, as well as areas that were unconfirmed. Management and the Board should ensure processes, policies, and guidelines are in place to ensure appropriate review and oversight of due diligence is performed to assess the adequacy of the analysis before it is presented to relevant committees and the Board. Failure to do so could lead to risks to the Bank and its customers.

Crypto-Asset Policy

The Bank's Digital Asset Policy (Policy) should be updated to reflect various aspects of the current program. The Policy (Board approved March 2022) identifies a number of key areas such as definitions, delegations of responsibility, and training. However, the Policy does not provide a clear framework of expectations related to the program, such as:

- The required scope of risk assessments, due diligence reports, contract review procedures, or ongoing monitoring practices.
- The Bank's responsibilities to [REDACTED] (such as delivering disclosures and agreements, marketing, customer service, complaint management, BSA/AML/CIP, and settlement).
- The Bank's expectations and processes for areas such as monitoring, testing, control failures/issues, or remediation requirements.
- The Bank's administration and oversight of the omnibus account used to confirm crypto assets purchased by customers actually exist.

Failure to maintain adequate policies and procedures for management to follow could lead to operational disconnects and unenforced controls, which in turn could expose the Bank to various levels of risk or consumer harm.

Third Party Risk

While efforts have been made to understand third party risks associated with both [REDACTED] and [REDACTED], additional clarity is needed to evaluate the potential exposure to the Bank. Specifically, management has not yet received a full list of third parties (fourth parties to the Bank) that [REDACTED] uses to perform various operations. In addition, four sub-servicers/fourth parties that were identified within the SOC reports were not followed-up on by management. Lastly, the Bank's contract with [REDACTED] indicates that [REDACTED]'s features will be provided by APIs and "[REDACTED]" Bank management has not obtained a list nor assessed what those solutions are and if any risk is present.

At a minimum, management should understand the third and fourth parties involved, the risks that the parties and their products and services present, and assess how each party, product, or service may introduce risk to the Bank. Then, management can begin to determine how to assess

the related risks with applicable parties, including the identification of inherent risks, controls, and residual risks. Proactive third party oversight will help mitigate undetected risk with third party partners.

Financial Projections

[REDACTED] financial projections that incorporate expected users' adoption with [REDACTED] need attention. As noted briefly above, due diligence documents noted that management incorporated liquidity projections in various internal liquidity reports; however, no projections were located. Management should revisit liquidity projections to understand the potential impacts that may result from onboarding this product to the Bank's end users. Onboarding new services without properly projecting funding requirements could result in unanticipated liquidity needs.

In addition, revenue projections lack certain critical assumptions from the Bank. Financial projections provided to the Board focus on establishing a break-even point for the Platform generated from fee income, as well as revenue volumes over the next five years. While these metrics gave the Board a sense of expectations during the initial due diligence phase, some of these customer expectations were generated from [REDACTED] and included little to no support. Furthermore, those projections were likely generated when bitcoin prices were rapidly appreciating in comparison to the US Dollar and did not consider any type of range or pullback in the market. Management should revisit the report and consider a range of results that incorporate different levels of adoption and transaction volume. If properly constructed, revised figures should allow the Board to understand various revenue scenarios that must be considered during the implementation process.

Prepaid Asset

As of March 2022, the Bank accrued approximately \$ [REDACTED] in expenses related to the design and buildout of the Platform. At that time, the Bank began amortizing an expense of \$ [REDACTED]

Compliance Management System

The risk for customer confusion is heightened due to the Platform, which is a nondeposit product, that is only accessible to customers through the Bank's existing online banking and mobile application (app) platforms where FDIC-insured deposit products are also accessible. Management did not sufficiently enhance the CMS to identify and mitigate consumer compliance considerations related to this crypto-asset service. In addition, the following section details weaknesses in the evaluation and controls of consumer protection risks conducted by the Bank of its third-party relationship with [REDACTED]. Addressing the items below will help ensure that CMS controls are in place to evaluate and monitor the risks applicable to this service, and

could assist to mitigate the consumer compliance risks involved with facilitating bitcoin trading alongside traditional banking products and services.

Website and/or Mobile Application and Disclosures

Bank customers will access the Platform by selecting the “bitcoin” option from the online banking or mobile app interface menu, which is listed between multiple deposit account-related features such as “Accounts” and “[REDACTED].” During the online or mobile app enrollment process, customers are presented with information and disclosures surrounding the service prior to being able to buy or sell bitcoin using an existing bank demand deposit account. Key risks include customers not understanding the distinctions between FDIC-insured bank deposit products and the Platform and bitcoin when enrolling in the Platform.

During this process, customers are presented with the [REDACTED], which contains the embedded [REDACTED] End User Agreement (EUA or Terms and Conditions), [REDACTED] E-Sign Consent, and Privacy Policy. This page also includes a statement that “[REDACTED]

[REDACTED].” However, customers have not been provided information that states bitcoin constitutes one of the types of products. This page could clearly state that these are warnings about potential risks to the consumer and that the Bank does not endorse or recommend the bitcoin services that customers can access through the Program. Further, there is a statement that “This Product is not insured by the FDIC or SIPC.” However, while accurate that crypto-assets are not insured by the FDIC, “This Product” has not been defined in any of the Terms and Conditions. In addition, deposit insurance protections provided to depositors by the FDIC is different from the investor protections provided by the Securities Investor Protection Corporation (SIPC). The disclosures and disclaimers could more clearly distinguish what protections are not afforded to crypto-assets. For example, by using terminologies such as, not insured by the FDIC and not protected by the SIPC, the disclosures could more clearly distinguish such protections.

The *Interagency Statement on Retail Sales of Nondeposit Investment Products* (NDIP Statement) may serve as a useful resource for Bank management to consider the nature and risks associated with the Platform including, but are not limited to, that bitcoin is: 1) not insured by the FDIC, 2) not a deposit or other obligations of, or guaranteed by, the depository institution, or 3) subject to investment risks, including possible loss. While some information is presented on the nature and risks related to the Platform, information on the risks is inconsistently presented and the placement, format, and timing of such language is not always clear and conspicuous. In addition, there are differences in how such information is presented across the online banking and mobile app versions of the Platform. For example:

- The embedded Terms and Conditions that customers must acknowledge electronically include information that the product is not insured by the FDIC and is subject to risk, including possible loss of value. To further help minimize consumer confusion and harm, the Bank could consider whether to also inform customers that Bitcoin balances are

not deposits or other obligations of the institution and are not guaranteed by the institution.

- The “Confirm Trade” buy and sell pop-up presented prior to the customer confirming a purchase or sale of Bitcoin through the online banking platform does not include disclosures related to the risks prior to submitting the transaction. These same confirmation pages in the mobile application do clearly state: 1) Bitcoin accounts & services by [REDACTED] 2) Not FDIC insured, 3) Not a deposit, and 4) May lose value at the bottom of the screen.
- The transaction receipts that confirmed the purchase or sale of Bitcoin include the Bank’s name, logo, and contact information for customer service inquiries. The transaction confirmation does not disclose any information about the risks related to the transaction but the online banking page footnote included on all Platform pages states: 1) Bitcoin accounts and services provided by [REDACTED] 2) Bitcoin is not a security and [REDACTED] is not an SEC-registered exchange, 3) Bitcoin balances in our [REDACTED] Account are not insured by the FDIC or SIPC, and 4) There are risk associated with bitcoin trading, including possible loss of value. The footnote disclosures for all mobile application pages, including transaction receipts, include a slightly different disclosure that states: 1) Bitcoin accounts & services by [REDACTED] 2) Not FDIC insured, 3) Not a deposit, and 4) May lose value.

To help ensure clear and conspicuous disclosure regarding the nature and risks associated with the Platform, the Bank could consider adding a unique page or specific checkbox separate from existing pages or disclosures. As suggested in the NDIP Statement, this could be in the form of simple plain language statements regarding the risks presented that requires customer acknowledgement prior to enrolling for the Platform. The Bank may also wish to consider providing additional disclosures on subsequent pages that further clarify the risks involved with this service, including that [REDACTED] may suspend Bank customer access to the service and prevent customers from completing other actions on the Platform. Additionally, to further ensure customers understand the nature and risks associated with the Platform, the Bank could consider requiring that the various disclosures be opened by the customer before they can provide an affirmative response that they have read and agree to terms and conditions of the service, which is not currently required.

While various information is presented across the online banking platform and mobile app on [REDACTED]’s role in offering the service, it may not be clear to the Bank’s customers when they are leaving an area that provides bank deposit products versus services for [REDACTED] products and services. The Bank may wish to consider adding a message or page after a customer clicks “Sign Up” to indicate that the customer is leaving an area of the Bank that offers banking products and services, and entering an area offering [REDACTED] services, which may help ensure customers better understand the distinction.

Furthermore, on the Bitcoin Account Summary page, customers are presented with a Bitcoin price that shows the “Market Value” for information purposes; however, there is no disclosure or information provided that states where that value is derived from. To ensure that customers

clearly understand that this is different than the “Price” for a bitcoin charged by [REDACTED], consider adding the source of the market value (e.g. “[REDACTED]” or other index). On the same page, the amount of bitcoin held by a customer is listed under “Bitcoin Holdings” whereas the EUA reflects “[REDACTED]” and “Bitcoin Balance.” Lastly, the online banking and mobile app “Confirm Trade” buy and sell pages show a transaction fee of [REDACTED] percent; however the EUA states there is a [REDACTED]. Management should ensure that all fees, terms, and conditions, and other relevant terminology are complete and consistent between the EUA, the online banking pages, mobile application, and any other Bank policies, procedures, or call center scripts.

Monitoring and On-going Vendor Due Diligence

Management should develop and implement procedures to monitor [REDACTED] and [REDACTED] platform updates and changes to [REDACTED]’s service offerings, including promotions and bonuses, prior to implementation and periodically thereafter. Also, consider implementing a mechanism to identify customer confusion, and the need to mitigate or adjust disclosure practices if needed. This could be accomplished through routine review of customer complaints and inquiries on the program. Lastly, the compliance risk assessment should be updated to include the consumer compliance risks associated with offering crypto-asset related products and services.

Failure to maintain a sufficient CMS could result in customer confusion about the nature and risks associated with crypto-assets, including potential consumer harm. Again, the *NDIP Statement* may serve as a useful resource for Bank management to enhance the risk assessment process and ensure clear and conspicuous language is provided to customers in a manner that:

- Neither misleads, nor confuses, or is likely to mislead, the institution’s customers about the role of the institution in facilitating its customers’ transactions with crypto-assets provider, [REDACTED], or the institution’s endorsement of such products or services.
- Minimize the possibility of customer confusion between the protections afforded to the institution’s FDIC-insured deposit accounts and non-insured products.
- Provide clear and complete information on the possible loss of value associated with the [REDACTED] service.

Meeting with Bank Management

Examiners met with Bank management on July 11, 2023 to discuss a number of the findings disclosed in this letter. Representing the FDIC was Examiner-in-Charge [REDACTED], Financial Analytics Data Scientist [REDACTED] and Compliance Technology Specialist [REDACTED]. Representing the Bank was Director of Digital Channels [REDACTED], Product Manager [REDACTED], Chief Banking Officer [REDACTED], Chief Operating Officer [REDACTED], Regulatory Liaison [REDACTED], Director of Community Development and CRA Officer [REDACTED], and Chief Risk Officer [REDACTED]. During the meeting, management was receptive to the findings and noted that a discussion would commence with senior

management and the Board regarding next steps with the program. Management noted that a formal response would be provided following those discussions.

Later that day, Bank management informed the FDIC that [REDACTED] sent correspondence to the Bank indicating that [REDACTED] is electing to terminate their agreement with the Bank effective immediately [REDACTED]. Bank management also noted that [REDACTED] has also terminated their agreement with [REDACTED] related to the Bitcoin Service.

Confidentiality Notice

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). Please notify the FDIC immediately if you receive a subpoena or other legal processing calling for the production of this Letter or a description of its content.

Action Requested

Given the current status of the [REDACTED] initiative, we request that the Board review this Letter at their next meeting, document their review in the minutes, notify us of any material changes in the status of the project, and provide a written response within 45 days of receipt of this Letter. If you have any questions, please contact RMS Assistant Regional Director Jaclyn Valderrama at [REDACTED], RMS Case Manager [REDACTED] at [REDACTED], DCP Assistant Regional Director [REDACTED] at [REDACTED], or DCP 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 on 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

**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

Via Secure Email

October 31, 2023

Board of Directors

Subject: Notification of Engagement in Crypto-Related Activities

Dear Members of the Board:

[REDACTED] (the Bank) engaged in initial discussions with the FDIC beginning in May 2021, followed by several subsequent discussions beginning in April 2022, regarding the Bank's engagement with [REDACTED] to develop a crypto-asset service offering with [REDACTED] that would allow Bank customers to buy, sell, and hold bitcoin. 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 stated that the FDIC may request information necessary to allow the FDIC to assess the safety and soundness, consumer protection, and financial stability implications of crypto-related activities. In order to begin those assessments, in April and October of 2022, the FDIC requested additional documentation from the Bank, including policies, processes, and controls established and maintained in relation to this crypto-related activity. On October 21, 2022, the FDIC sent a letter to the bank's Board of Directors asking them to refrain from expanding the service to its customers until we completed our review. On August 14, 2023, the FDIC provided supervisory feedback to the bank relative to the activities your institution was considering to pursue.

On September 29, 2023, Executive Vice President/Chief Banking Officer (CBO) [REDACTED] sent an email to Case Manager [REDACTED] stating that the Bank "is no longer involved in virtual currency." The FDIC acknowledges the bank's updated status related to this activity. As a result of the Bank's September 29, 2023 communication to the FDIC, the October 21, 2022 FDIC letter to the Board has been superseded. We request that the Bank notify this office if the status of this activity, or other crypto-related activity, changes in the future.

If you have any questions, please contact Risk Management Supervision (RMS) Assistant Regional Director Jaclyn Valderrama at ([REDACTED]), RMS Case Manager [REDACTED] at [REDACTED]

[REDACTED], Depositor and Consumer Protection (DCP) Assistant Regional Director Susan Pinette
at ([REDACTED]), or DCP Review Examiner [REDACTED] at [REDACTED]

Sincerely,

/s/ Louis C.C. Cheng

Louis C.C. Cheng
RMS Acting Deputy Regional Director

/s/ Dana Crutchfield

Dana Crutchfield
DCP Deputy Regional Director

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

September 8, 2022

Board of Directors
[REDACTED]

Subject: Third-Party Crypto-Asset Activity

Dear Members of the Board:

On April 19, 2022, we received [REDACTED] (the Bank) notification of the Bank's intent to offer customers the ability to buy, sell, and hold crypto-assets through the Bank's digital and mobile banking platform in conjunction with [REDACTED] in response to 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 October 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.

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] or Review Examiner [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/ Kristie K. Elmquist

Kristie K. Elmquist
Regional Director

cc: [REDACTED]

Attachment

Crypto-Asset Activity Request List

1. 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;
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 the bank's service provider, including audits, financials, insurance, complaints, etc.;
11. Description of what happens to customers' accounts or crypto-asset holdings 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 crypto-assets a consumer may purchase or sell (e.g. daily, weekly, monthly);
14. Description of the methodology that determines the price the consumer pays to [REDACTED]. This includes providing an explanation of how any market price is determined and how the spread, if any, is calculated;
15. 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);
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. Framework of assigned responsibilities and qualifications for those involved in day-to-day administration of crypto-related activity, including internal control responsibilities; and,

25. Description of oversight responsibilities (e.g. management, staff, committees (including members, frequency of meetings), and collectively, their approval authority).
26. If the activity is in a testing phase or has been made available to customers, provide: 1) number of active accounts using this service through the bank; 2) total number and dollar volume of buy transactions completed (since implementation); and, 3) total number and dollar volume of sell transactions completed (since implementation).

November 23, 2022

Board of Directors
[REDACTED]

Subject: **Response to Notification regarding Crypto-Related Activities**

Dear Board of Directors:

On April 19, 2022, we received [REDACTED] (Bank's) notification regarding the Bank's intent to offer customers the ability to buy, sell, and hold crypto-assets through the Bank's digital and mobile banking platform in conjunction with [REDACTED] in response to Financial Institution Letter (FIL), FIL-16-2022, Notification of Engaging in Crypto-Related Activities. On May 4, 2022, the FDIC sent a letter to the Board requesting that the Bank not proceed with implementation while the FDIC considered the proposed crypto-related activity. On September 8, 2022, the FDIC sent a letter to the Board requesting information necessary to allow the FDIC to assess the safety and soundness, consumer protection, and financial stability implications of such activities.

In a subsequent email sent to the FDIC on October 21, 2022, Bank management stated that this activity (intent to offer Bitcoin services to customers through third parties) had been paused with no definitive timeframe for revisiting this activity. The FDIC acknowledges the Bank's updated status related to this activity, and the May 4, 2022 FDIC letter to the Board has been superseded as a result of the Bank's October 21, 2022 communication to the FDIC. We request that the Bank notify this office if the status of this activity, or other crypto-related activity, changes in the future.

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/>.

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 Assistant Regional Director J. Mark Love at [REDACTED]

Sincerely,

Kristie K. Elmquist
Regional Director

cc:

[REDACTED]
Federal Reserve Bank of Dallas

**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]

November 4, 2022

Board of Directors
[REDACTED]

Subject: Proposed Testing of Digital Asset Accounts

Dear Members of the Board:

On May 31, 2022, Interim 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). FDIC staff held a brief discussion with President and Chief Executive Officer (CEO) [REDACTED], Interim CFO [REDACTED], and the Digital Banking Division's Chief Operating Officer (COO) [REDACTED] on June 22, 2022. On July 28, 2022, the FDIC responded to the institution regarding the notification of engaging in crypto-related activities. The FDIC's response acknowledged the bank's Plan while requesting the opportunity to review additional information, when available, to assess the risk management framework surrounding these activities.

The FDIC's July 28, 2022 letter included a request list of essential elements and requested that the bank not proceed with planned activities until the FDIC had completed its review and provided supervisory feedback. On August 5, 2022, President and CEO [REDACTED] submitted a new notification of [REDACTED] intent to originate test accounts and perform limited testing on two digital asset infrastructure providers, [REDACTED] (for [REDACTED] payments) and [REDACTED] (as sub-custodian for digital assets). On August 17, 2022, FDIC staff held a discussion with President and CEO [REDACTED], Interim CFO [REDACTED], and COO [REDACTED], during which Bank management reaffirmed their commitment not to proceed with planned activities or account testing until the FDIC had completed its review.

The FDIC requests that the Bank provide the items requested in the Attachment to this letter, which seeks additional documentation and information regarding the proposed test accounts and the planned activities for lending and market making that were outlined in the Plan. Please provide the items requested in the Attachment, as well as the items requested in the July 28, 2022 letter by December 19, 2022. If the requested information has not yet been developed, include the status and timeline for developing each item in the response, as applicable. We will review documentation and information as it is received in order to assess the safety and soundness, consumer protection, and financial stability implications of the proposed activities.

Board of Directors
[REDACTED]

Page 2

Please notify us of any material changes in the planned activities, the status of this project, or implementation to ensure that the bank is operating in a safe and sound manner and in full 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 or Case Manager [REDACTED] at [REDACTED], respectively. For questions related to Consumer Protection, please contact Assistant Regional Director Matthew Sheeren or Review Examiner [REDACTED] and [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 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

Attachment

Proposed Stablecoin and Custody Testing

- All due diligence performed by the bank on [REDACTED] and [REDACTED], including all supporting documents used for the analysis.
- All due diligence performed by the bank on [REDACTED], including all supporting documents used for the analysis. Please include any master service agreements or other contracts between the bank and [REDACTED] (or related entities).
- Risk assessment performed on the proposed activities in the August 5th letter.
- Permissibility analysis regarding [REDACTED] under 12 U.S.C. § 1831a and 12 CFR part 362 and any accompanying opinion of legal counsel.
- Analysis of whether [REDACTED] is a security under the Securities Act of 1933 and the Securities Exchange Act of 1934, including an analysis of the factors identified in *SEC v. W.J. Howey Co.*, 328 U.S. 293 (1946) (“The Howey test”).
- Detailed information on the proposed activities, including how the digital asset infrastructure providers and any related crypto-assets will be used in bank operations, activities, or services.
- Detailed description of the digital assets for which the bank seeks to provide custody related services via [REDACTED].
- Detailed descriptions of how these services would be marketed to customers. Provide copies of any draft or final marketing documents and literature, including press releases, internal scripts, and educational materials for both items to be tested.
- Risk management policies and procedures for the proposed testing activities. For custody services, include address generation and private key management processes and procedures.
- Board and committee minutes reflecting approval, discussion, analysis, and any documentation provided on the proposed testing activity.
- Draft contracts and legal agreements between the bank and crypto-related third party vendors.
- An overview of the contracting process, including the personnel involved in the review, analysis, and structuring.
- Analyses performed with respect to SEC Staff Accounting Bulletin No. 121 and proposed services.
- Describe in detail the specific tests that will be performed on the accounts at [REDACTED] and [REDACTED]. Include a discussion of the research goals that are being pursued, the parties involved in the testing, wallet/custodial structures used, who will have control of associated keys, and a descriptive roadmap that would indicate the timeline needed for testing. Also, explain how the testing will be accomplished without (i) operation or linkage to third-party platforms, and (ii) implementation of any digital activity to which notice, non-objection, or consent would be required, as stated in the bank’s August 5th letter.

- Please describe the titling, user access, and control of accounts the bank proposes to establish and test on the platforms noted by the bank.

Proposed Crypto Lending

- Draft loan and security agreements.
- Loan policy and customer eligibility criteria related to crypto-asset collateralized lending and associated underwriting standards/procedures.
- Board minutes reflecting approval, discussion, analysis, and any documentation provided to the board on the activity.
- Bank's analysis of SEC Staff Accounting Bulletin No. 121 and its applicability, and any accompanying opinion of counsel.
- Bank's legal analysis and determination, and any accompanying opinion of legal counsel, with respect to permissibility of lending activity collateralized by crypto-assets, ownership of the crypto-assets serving as collateral, authority to pledge the crypto-assets serving as collateral, security interest perfection, and foreclosure on the crypto-asset collateral.
- If collateral involved is rehypothecated collateral tendered by the borrower's clients, documentation of borrower's authority to rehypothecate (such as from the borrower's underlying financing arrangements) and analysis of the adequacy and enforceability of the borrower's documentation.
- For any collateral custodians and entities that provide collateral maintenance functions:
 - Contracts or agreements
 - Risk assessment and due diligence
 - Analysis of bankruptcy implications performed by the bank
 - Documentation relating to any ongoing monitoring activities
- Detailed description of the information technology arrangement or infrastructure utilized for collateral maintenance function, including all data flows, interfaces with bank's core systems, and new IT development and costs to implement/facilitate.
- Detailed description of the collateral maintenance monitoring function.
- Bank reporting on collateral maintenance monitoring.
- Describe how crypto-asset lending activities will be monitored to identify and report suspicious activity.
- Independent credit review documentation.
- Capital risk weighting treatment plans of the credit.
- Loan loss reserve plans associated with such loans.
- Bank's conflict of interest/ethics/conduct policy.
- Planned marketing materials, press releases, and any other publicly distributed information related to the activity (draft or proposed).

Proposed Market Making

- Please provide additional details regarding the comments on page 44 of the Plan regarding this activity.



Federal Deposit Insurance Corporation
Division of Risk Management Supervision
San Francisco Regional Office
25 Jessie Street at Ecker Square, Suite 2300
San Francisco, California 94105
(415) 546-0160



Sent via secure email

May 5, 2023

Board of Directors



Subject: Transmittal of Safety and Soundness Report of Examination

Members of the Board:

Enclosed is a copy of the February 27, 2023 Joint FDIC [REDACTED] Report of Examination (Report). In addition to our safety and soundness findings, the Report includes the results of Anti-Money Laundering /Countering the Financing of Terrorism (AML/CFT) review and Information Technology (IT) review. The Bank's Digital Banking Division was also reviewed during this examination. Regulatory comments regarding the Digital Banking Division will be provided to the Board under a separate letter.

Summary of Examination Findings

The bank's overall financial condition remains [REDACTED]

[REDACTED] The Board approved Business Plan (Plan) describes traditional bank activities as well as proposals for new digital bank activities.

[REDACTED] a significant source of growth may arise from expanding the digital bank division. [REDACTED]

Our review found the Bank's future digital bank activities remain under development, and, we acknowledge and appreciate management's commitment to the FDIC and [REDACTED] to pause all digital bank activities until obtaining regulatory feedback. [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 in Part 309 of the FDIC Rules and Regulations. Please notify us immediately if you receive a subpoena or other legal process calling for the production of this letter or a description of its content.

Action Requested

- Each member should thoroughly review the Report and acknowledge their review by signing the Signatures of Directors/Trustees page included as the last page of the Report. Please retain this page with the Report.
- Record the Board's review of the Report in the Board minutes.
- Please respond to the findings contained in the Report to both of our offices. We request your reply within 45 days of the date of this letter.

Confidentiality Notice

This copy of the Report is the property of the FDIC and the [REDACTED] and is furnished to the institution examined for its confidential use. Neither the institution, nor any of its directors, officers, or employees, may disclose or make public in any manner any portion of this Report under any circumstances. Refer to Part 309 of the FDIC Rules and Regulations for additional information on confidentiality restrictions. If any subpoena or legal process calling for production of this Report is received, both agencies should be notified immediately.

Post-Examination Survey

In addition to the Report, we have enclosed a request from FDIC Office of the Ombudsman Director [REDACTED] for feedback on the examination process. Please take a few moments to review the enclosed letter and complete the survey.

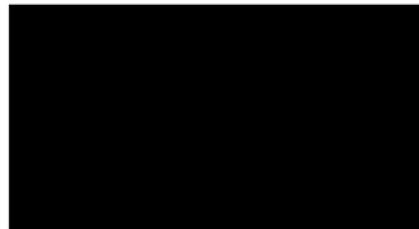
Questions should be directed to Assistant Regional Director Jaclyn Valderrama or Senior Case Manager [REDACTED] at [REDACTED] and [REDACTED], respectively, or [REDACTED] Examinations Managers [REDACTED]

Sincerely,

/s/ Jaclyn Valderrama
Jaclyn M. Valderrama
Assistant Regional Director

Enclosures

cc: Federal Reserve Bank of San Francisco





Federal Deposit Insurance Corporation

25 Jessie Street at Ecker Square, Suite 2300
San Francisco, California 94105

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

Sent via secure email

March 18, 2024

Board of Directors
[REDACTED]

Subject: Crypto-Asset Activity Review Supervisory Feedback Letter (Letter)

Dear Members of the Board:

On May 31, 2022, Interim Chief Financial Officer (CFO) [REDACTED] submitted [REDACTED] (Bank) draft [REDACTED] business plan (May 2022 Business Plan) pursuant to FDIC's Financial Institution Letter-16-2022 Notification of Engaging in Crypto-Related Activities (FIL-16-2022). According to the May 2022 Business Plan, the Bank's proposed crypto-asset activities include:

1. *Stablecoins - Stablecoins as payments, and the eventual issuance and distribution of stablecoins* [REDACTED] Stablecoin developed by the [REDACTED] that is governed by [REDACTED]
2. *Custody - The ability to offer digital asset safekeeping and custody services;*
3. *Lending - The ability to offer loans collateralized by digital assets; and,*
4. *Market making - The ability to facilitate customer purchases and sales of digital assets.*

FDIC staff held a brief discussion with President and Chief Executive Officer (CEO) [REDACTED] CFO [REDACTED] and the Digital Banking Division's Chief Operating Officer (COO) [REDACTED] on June 22, 2022. On July 28, 2022, the FDIC responded to the Bank regarding the notification for engaging in crypto-related activities. The FDIC response acknowledged the May 2022 Business Plan while requesting the opportunity to review additional information, when available, to assess the risk management framework surrounding the activities. This response by the FDIC also asked the Bank to not proceed with the activities until the FDIC completed its review and provided supervisory feedback.

On August 5, 2022, President and CEO [REDACTED] submitted a new notification of the Bank's intent to originate test accounts and perform limited testing on two digital asset infrastructure providers: [REDACTED] payments and [REDACTED] as sub-custodian for digital assets. On August 17, 2022, FDIC staff held a discussion with President and CEO [REDACTED] CFO [REDACTED] and COO [REDACTED] during which Bank management reaffirmed their commitment not to proceed with proposed activities or account testing until the FDIC completed its review.

[REDACTED]

On November 4, 2022, the FDIC sent an additional letter requesting the documents from the July 28, 2022, correspondence, as well as a request for additional information regarding the proposed test accounts and the proposed activities for lending and market making. On December 19, 2022, the Bank provided the items requested.

On [REDACTED] the Bank's legal counsel submitted an application to the [REDACTED] [REDACTED] for [REDACTED]. The [REDACTED] application included a revised and updated business plan (February 2023 Business Plan) that included material changes when compared to the May 2022 Business Plan provided to the FDIC. Specifically, the February 2023 Business Plan transitioned the crypto-related proposals to more of an aspirational status that would not impact their financial projections. This was due to management not wanting the Board to commit the Bank's financial performance on implementing crypto-related activities before receiving regulatory feedback.

On February 27, 2023, a full-scope safety and soundness examination commenced. This examination included a crypto-related review in partnership with FDIC's Division of Depositor and Consumer Protection (DCP). During the examination, Bank management provided the FDIC a copy of the February 2023 Business Plan submitted to [REDACTED]. Even as the February 2023 Business Plan noted material changes away from crypto-related activities, management and the Board still sought regulatory feedback on the aspirational crypto-related proposals. As such, feedback around the crypto-related proposals is provided below. If the Bank desires to refocus its efforts within the crypto-related industry, an updated proposal with additional information should be provided to the FDIC.

In addition, the February 2023 Business Plan includes the Bank's new aspiration to develop a [REDACTED] program as well as a [REDACTED] program. This letter does not include supervisory feedback on those two programs.

Management and the Board should be reminded that crypto-related activities may pose safety and soundness and consumer protection risks to the Bank and its customers. The Joint Statement on Crypto-Asset Risks to Banking Organizations (Joint Statement), issued by the FDIC, the Board of Governors of the Federal Reserve System, and the Office of the Comptroller of the Currency on January 3, 2023, may also serve as a useful resource for the Board and management regarding crypto-asset risks. Events across the crypto-asset sector have been marked by significant volatility and have exposed vulnerabilities in the sector. These events highlight a number of key risks to be aware of, including those outlined in the Joint Statement. The types and levels of risks are dependent on the type of activity, implementation of the activity, and controls designed to mitigate the risks. Examples of risks that may be present include compliance, legal, operational, third party, and strategic. These risks may present heightened risk to the Bank's customers, including:

- Confusion about the role of the financial institution in the crypto transactions;
- Lack of understanding about the nature and risks associated with crypto-asset products;
- Inability to differentiate between the non-deposit products and traditional banking products, such as deposit accounts; and

- Misunderstanding the applicability of Federal deposit insurance coverage.

Lastly, Part 328 of the FDIC's Rules and Regulations², titled "Advertisement of Membership, False Advertising, Misrepresentation of Insured Status, and Misuse of the FDIC's Name or Logo," applies to any person, including non-banks, such as crypto-asset companies. A recent amendment to Part 328, expanded the definition of non-deposit product to include crypto-assets and also implemented additional rules regarding signage for digital deposit-taking channels. Accordingly, the Bank is reminded that its procedures, as well as third parties the bank has contractual arrangements with, should effectively manage crypto-related risks, including compliance risks related to Part 328, Subparts A and B. In addition, the FDIC's Advisory to FDIC-Insured Institutions Regarding FDIC Deposit Insurance and Dealings with Crypto Companies, issued on July 29, 2022, may also serve as a useful resource for the Board and management regarding risks and concerns arising from crypto-assets offered by, through, or in connection with, insured depository institutions.

SUPERVISORY FEEDBACK SUMMARY

Given the unique nature and evolving risks associated with the four proposed crypto-related products, management needs to perform and document a more robust assessment of the risks, including rigorous vendor due diligence and pre-implementation evaluation, prior to offering these new services to customers. The Board should ensure that management has established a robust risk management framework and compliance management system (CMS) to ensure the activities can be performed in a safe and sound manner and in compliance with applicable laws, rules, and regulations.

Furthermore, the February 2023 Business Plan is inconsistent with the May 2022 Business Plan that Bank management submitted pursuant to FIL-16-2022. For example, the February 2023 Business Plan still includes significant narrative regarding the four proposed crypto-related activities, but the embedded financial projections have been stripped of any crypto-related balance sheet or income statement impacts. In addition, Bank management has not addressed concerns about the proposed contracts with [REDACTED] (and their related companies) and [REDACTED] that were identified by legal counsel at affiliate [REDACTED]. This is especially concerning as the draft contracts include services that are not proposed within the two Business Plans. Lastly, the Bank lacks governance and risk management frameworks for Anti-Money Laundering / Countering the Financing of Terrorism (AML/CFT) and CMS that are commensurate with the proposed activities. The Board must ensure appropriate due diligence is performed to govern the proposed activities, including the proposed testing management is seeking to conduct.

BUSINESS PLAN PROPOSAL

The February 2023 Business Plan is inconsistent with the May 2022 Business Plan, and it should be revisited by the Board. The February 2023 Business Plan relies heavily on a crypto-asset centric strategy focused on OCC Interpretative Letters. The expected customer base will be commercial firms in the digital asset ecosystem, including fintech firms, software developers,

²See 12 CFR part 328.

and insured depository institutions (IDIs), that want exposure to the crypto-asset class. The Bank believes that these companies are seeking traditional banking products, with some companies looking to provide banking services to their end-users via a banking-as-a-service partnership. Proposed products still referenced in the February 2023 Business Plan include building out a payments ecosystem focused on stablecoins, crypto-asset custody services, crypto-asset lending services, and crypto-asset facilitation services. However, the Bank's updated financial forecasts in the February 2023 Business Plan eliminated all crypto-related activities and revenues. Furthermore, a number of inconsistencies within the revised February 2023 Business Plan were identified, including:

- The narrative indicates that the Bank has no interest in holding digital assets as a principal; however, further information reviewed and conversations with management indicate that the Bank is seeking to hold [REDACTED] on the Bank's balance sheet. (pg 6, 7, 61)
- The narrative indicates that the Bank has built out programs to adequately address risks associated with digital asset activities; however, the AML/CFT and CMS areas are still under significant development and currently inadequate to properly control risk per documents reviewed and conversations with management. (pg 36)
- The narrative describes a proposed debit card product scheduled for beta testing in [REDACTED] that would include digital-asset non-custodial wallets; however, further conversations with management indicated this activity remains aspirational. (pg 60)
- The narrative indicates that the Bank will only do business with stablecoins that meet the Bank's internal standards; however, no standards have been developed. (pg 44)
- The narrative indicates that the Bank has developed a customer strategy to cross reference different products being proposed; however, a customer strategy has not been developed. (pg 67)

The Board needs to reassess, update, and support the February 2023 Business Plan with the exact proposal and activity being sought. Failure to have a business plan with a consistent strategy and financial forecasting can lead to confusion and improper actions by management charged with executing Board-approved initiatives.

COMPLIANCE MANAGEMENT SYSTEM (CMS)

The Bank's existing crypto-asset related CMS, which is currently in development, is insufficient. Management is using the current CMS control framework as part of its new product development process for crypto-related activities; however, a number of critical features related to Board and management oversight and the compliance program are lacking. For example, Board and management had not yet updated the compliance program for the proposed crypto-asset products. In addition, the risk assessment does not provide sufficient details about inherent consumer compliance risks applicable to the proposed activities and mitigating CMS controls. The Bank also does not have crypto-asset related policies and procedures nor related training, monitoring, or audits. Lastly, the complaint resolution process has not been updated to reflect the new crypto-asset products and third-party relationships.

Management should identify performance criteria, internal controls, reporting needs, and contractual requirements that would be critical to the ongoing assessment and control of specific, identified compliance risks. This process should also evaluate staffing, including the proper level and experience to oversee a crypto-related program. After completing the risk assessment process, particularly relative to the overall business plan, management should review its ability to provide adequate oversight of the proposed product(s) on an ongoing basis.

To a large degree, the success of an institution's CMS is founded on the actions taken by its Board and management. As with any new product or service, including crypto-related products or services, Board and management should foster a culture of compliance and ensure the compliance officer has sufficient authority to develop the CMS across departmental lines, access to all areas of the institution's operations, and authorization to effect corrective action. Board and management should allocate sufficient resources to the compliance function commensurate with the level and complexity of the institution's operations, and the compliance officer should provide ongoing updates to the Board.

When offering new products and services to customers, including crypto-asset products and services, management should ensure that applications, disclosures, contracts, agreements, statements, advertisements, and other customer facing materials contain clear, accurate, and conspicuous information sufficient for customers to understand the nature, terms, limitations, and costs of the given activity, as appropriate. The Interagency Statement on Retail Sales of Non-deposit Investment Products serves as a useful resource when considering how to ensure clear and conspicuous language is provided to customers when offering non-deposit products. The recently-amended FDIC Part 328 also outlines rules regarding signage for digital deposit-taking channels, with specific requirements for platforms that offer insured deposit products alongside non-deposit products.

AML/CFT OVERSIGHT

The Bank's AML/CFT program in its current state cannot support the proposed crypto-related activities discussed in the February 2023 Business Plan's narrative. As of the review, the Bank continues to use AML/CFT software that sufficiently monitors traditional banking activities; however, conversations with management indicate a number of new vendors will have to be on-boarded to effectively oversee the proposed crypto-related activities. The Bank is seeking third-party vendors to support oversight in areas including pre-screening wallets, monitoring crypto transactions, building risk inventories, and ensuring that new systems can properly communicate with legacy systems that the Bank is currently using. Failure to properly construct an AML/CFT system to control risks surrounding the proposed activities may result in a failure to detect criminal activity.

THIRD-PARTY RISK MANAGEMENT

A financial institution's Board and management are responsible for identifying and controlling risks arising from third-party relationships to the same extent as if the third-party activity were handled within the institution. The activities proposed within the May 2022 and February 2023

Business Plan will expose the Bank to material third party risk given the number of activities, proposed volume, and material shift in the customer base.

If the Bank elects to revisit crypto or other financial-innovation related activities discussed in either of the aforementioned business plans, further attention should be placed on formalizing a third-party risk management framework that consistently evaluates and documents management's efforts to effectively control risks. This letter includes a number of examples where the Bank's third-party risk management should be further evaluated to understand a number of key risks that are likely present. Failure to properly oversee third-party risks could have a significant effect on other key aspects of performance, such as various financial metrics and the institution's ability to comply with laws and regulation.

STABLECOIN PROPOSAL

The February 2023 Business Plan notes the Bank's desire to use stablecoins for payments as well as the eventual issuance and distribution of stablecoins. Specifically, the Bank is seeking to hold ██████████ on-balance sheet for both operational and customer payments. The February 2023 Business Plan further notes an expanded desire for facilitating payments with ██████████ while noting that the Bank may one day seek permission for the eventual issuance of a stablecoin.

To accomplish the ██████████ payments proposal, management desires to have a "float" account of ██████████ that is owned by the Bank and recorded on the Bank's balance sheet. The ██████████ would be used to exchange ██████████ not only with the end-user but also with the issuer ██████████. Management plans on keeping ██████████ in a ██████████ compliant wallet until an affiliate of the Bank develops a non-custodial wallet. The eventual plan is to integrate the non-custodial wallet with a Bank-issued debit card that allows the customer to select if a payment will be made in fiat dollars or ██████████. As of this review, the technology surrounding the non-custodial wallet and integration to the debit card have not been developed.

Based on the documents provided by Bank management on December 19, 2022, coupled with additional documents provided during the February 28, 2023, examination, the Bank's due diligence to begin testing ██████████ is insufficient. In particular, the Bank has yet to build out an AML/CFT program or a CMS program commensurate with the proposed stablecoin activities. In addition, the risk assessments performed do not include a specific assessment of the proposed activity, including risks to both the Bank and end-user. The proposed master service agreement between the Bank and ██████████ also has a number of areas that require further management attention. Management needs to develop effective oversight and controls to ensure risks are appropriately mitigated, monitored, and controlled before pursuing testing activities. Lastly, while the Bank's legal permissibility analysis for stablecoins generally addresses custody and facilitation, it does not analyze the Bank purchasing and holding ██████████ on its balance sheet, which must be addressed. Refer to the Appendix for additional details.

CRYPTO-ASSET CUSTODY PROPOSAL

The Bank is seeking to offer crypto-asset custody services to customers. The February 2023 Business Plan noted a proposal to engage a third-party, ██████████ to provide crypto-asset

custody services for bitcoin and ether. Documents provided later clarify that [REDACTED] uses an affiliate, [REDACTED], for the actual custody service. The February 2023 Business Plan also notes the Bank may provide in-house crypto-related custody services at a later date.

Based on a variety of due diligence documents as well as the Bank's [REDACTED] Risk Assessment, additional oversight is needed. Similar to the stablecoin concerns noted above, management has not developed a risk management framework, and the risk assessment and due diligence performed for crypto-asset custodial services are insufficient. The proposed service contract between [REDACTED] and the Bank also includes a variety of other services that are not mentioned within either of the Bank's business plans, such as staking crypto-assets. In addition, the [REDACTED] Risk Assessment focuses on traditional banking risks that significantly differ from the proposed custodial offering. Lastly, supporting documents did not provide any kind of overview or risk consideration to the Bank performing its own custody services in-house. Refer to the Appendix for additional details.

CRYPTO-ASSET LENDING PROPOSAL

The proposed crypto-secured loan product, referred to as the [REDACTED] will be structured similar to a revolving line of credit. The proposal indicates these loans will be offered only to businesses in the digital asset industry who desire bank credit that will provide capital for investment and operating purposes. The [REDACTED] will be secured by a pledge of bitcoin or ether with advances subject to a maximum LTV ratio enforced at all times. The Bank will receive frequent collateral valuations to calculate LTV ratios independently from the custodian [REDACTED]. To protect the Bank from the loss of collateral by theft, diversion, or negligence on the part of the custodian or any third-party, management noted that they will obtain specialty insurance coverage on the pledged collateral.

Based on a review of the proposed activities, additional due diligence is necessary regarding the [REDACTED] product. In addition, the Bank is developing a [REDACTED], which is not ready to be deployed. The [REDACTED] is an in-house utility software application that will be used to report on loan balances and collateral values and create messaging/reminders to a borrower, among other functions. The [REDACTED] will be responsible for monitoring collateral information, as well as maintaining almost all data on the borrower, guarantor, custodian, loan, deposit, collateral, and collateral valuations. Given that the [REDACTED] has not been developed or tested, there is currently no other monitoring system in place to oversee this loan type. Furthermore, the Bank provided two risk assessments for the [REDACTED], both are incomplete and include inconsistent risk ratings. Additionally, there are a variety of loan policies and procedures that have not been developed. The legal permissibility of the Bank acquiring and holding digital assets under a repossession scenario will need to be further evaluated once the bank finalizes policies, procedures, and the [REDACTED] framework. Refer to the Appendix for additional details.

While continuing to develop the infrastructure and controls for the [REDACTED] program, the Board and management are reminded that the Equal Credit Opportunity Act (ECOA) and Section 5 of the Federal Trade Commission Act, 15 U.S.C. § 45 (Unfair or Deceptive Acts or Practices, or UDAP) apply to all loans, including commercial-purpose loans. Under the ECOA, lenders may

not treat applicants differently based on prohibited-basis characteristics. This encompasses all aspects of the application process, including know-your-customer validation checks, credit underwriting, loan servicing, and default remedies.

Management is also reminded that UDAP risks may increase when an institution introduces a new delivery channel, a complex product, or a new activity, or when staff is not sufficiently qualified or trained. As in other areas, the strength of an institution's CMS, such as strong management controls, effective training, and ongoing monitoring, is a risk-mitigating factor. Pre-implementation due diligence testing may help mitigate the risk of consumer harm from inaccurate advertisements, inconsistent disclosures, material omissions, or unfair or deceptive default remedies. Given the unique nature of this product, it is not clear how the Bank plans to disclose fees related to asset transfers on the blockchain and any custody-related fees, including fees that may be incurred if the Bank needs to change custodians. Including clear disclosures of any costs associated with a transaction, especially when crypto-asset transactions costs vary widely across platforms, could allow the borrowers to make more informed decisions.

Further, given the historically volatile nature of the underlying digital assets, Board and management should consider reviewing the content and timeliness of customer communications surrounding margin calls as well as the need for customer service staff to respond to surges in customer requests during periods with significant collateral volatility. Any customer communications regarding margin calls should be accurate and reflect appropriate remedies to avoid default. When presenting customers with remedies, the Bank's communications should be provided in a timely manner to ensure borrowers can reasonably use available methods to respond to a margin call and ensure notices reflect accurate payment and collateral-pledging options to resolve the margin calls before the end of the remedy window. The Bank should also ensure that customers receive clear disclosures about the potential tax liability that may arise from any default event that results in the liquidation of collateral.

CRYPTO-ASSET MARKET MAKING PROPOSAL

The Bank is proposing a service to allow its customers the ability to buy, sell, and hold bitcoin, ether, and [REDACTED]. Proposals indicate that the Bank will use [REDACTED] to provide this service. Bank management considers this a complimentary service to the crypto-asset custody proposal as well as the crypto-asset lending proposal. Based on a variety of due diligence documents as well as the initial risk assessment, additional oversight is needed by Bank management. For example, the contract provided may preclude the Bank from offering this service to customers given the language surrounding the business purpose for activities, compared to the consumer touchpoint that the Bank is offering. In addition, the completed risk assessments lack specific narrative around facilitation activities as well as the potential risk of misrepresenting FDIC insurance. Management's narrative is mostly focused on custody oversight, which while still important, does not address risks related to facilitation. Refer to the Appendix for additional details.

CONFIDENTIALITY NOTICE

This Letter is confidential and may not be disclosed or made public in any manner under Part 309 of the FDIC's Rules and Regulations (12 CFR Part 309). Please notify the FDIC immediately if you receive a subpoena or other legal process calling for the production of this Letter or a description of its content.

ACTION REQUESTED

The FDIC's review has identified material concerns about the proposed activities, including the breadth and lack of specificity of the Bank's proposal, the Bank's unseasoned risk management framework, and the rapidly changing nature of the proposed activities. Given the critical nature of certain recommendations, the Board must ensure the matters outlined in this Letter are fully addressed prior to engaging in the proposed activities to effectively mitigate the risk to the Bank and consumers.

If the determination is made by the Bank to proceed with the proposed activities, the Bank should communicate to the FDIC that the recommendations contained in this Letter have been fully resolved prior to commencing with the proposed activities. As stated in our letter dated July 28, 2022, the FDIC requests that the Bank not proceed with the proposed activities until we have reviewed the Bank's actions to address the recommendations and provided a formal response to the Bank. The Board is also reminded that conducting the activities described in its Business Plan must be done in a safe and sound manner that is consistent with applicable laws and regulations. Please also continue to update the FDIC on developments in the Bank's risk management framework and CMS.

On March 6, 2024, a meeting was held with bank management to provide feedback on the Bank's proposed crypto-related activities noted in the Bank's February 2023 Business Plan. Compliance Technology Specialist [REDACTED], Senior Examination Specialist [REDACTED], Senior Case Manager [REDACTED], and Financial Analytics Data Scientist [REDACTED] represented the FDIC. The [REDACTED] was represented by [REDACTED], President and CEO [REDACTED], EVP/Chief Credit Officer [REDACTED], EVP/Chief Operating Officer [REDACTED], EVP/Chief Risk and Compliance Officer [REDACTED] and EVP/Chief Financial Officer [REDACTED] represented the Bank. Management was receptive to the feedback.

The Board should review this Letter and accompanying Appendix at their next meeting and document their review in the minutes. We request a written response within 45 calendar days of receipt of this Letter. 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 on 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 RMS Assistant Regional Director Jaclyn Valderrama at [REDACTED] RMS Case Manager [REDACTED] DCP Assistant Regional Director Susan Pinette [REDACTED], or DCP Review Examiner [REDACTED].

Sincerely,

/s/ Paul P. Worthing
Paul P. Worthing
Regional Director

APPENDIX: DETAILED FINDINGS AND FEEDBACK

STABLECOIN PROPOSAL

Due Diligence -

According to management, documented due diligence primarily consists of a contract review performed at the holding company level. Dozens of concerns were identified within the contract review that remain outstanding, and findings have not been incorporated within risk assessments. Furthermore, documents filed by [REDACTED] with the Securities and Exchange Commission were provided in the due diligence package; however, there was no evidence that management had reviewed, documented, or considered the various risks that [REDACTED] identified with its business model. Other critical [REDACTED] documents that were available on [REDACTED] website at the time of this review, such as [REDACTED] consensus protocols, whitepapers, and various other privacy and legal documents, were not included in due diligence information provided by the Bank or discussed in the two due diligence reviews obtained.

While specific concerns are discussed below regarding the contract review, management should place additional attention in performing comprehensive due diligence.

Contract Review –

On November 11, 2022, [REDACTED], Vice President of Regulatory Strategy & Affairs (VP [REDACTED]) for [REDACTED] an affiliate of the Bank, provided a contract review for approximately 12 different [REDACTED] documents, including agreements, policies, and consent items. The review identified a variety of concerns including, but not limited to, [REDACTED] lack of indemnification obligations or insurance requirements as well as the Bank's lack of monitoring rights or confidentiality protections. While these and other risks have been identified, no subsequent actions have taken place, which could include updating risk assessments, proposing contract revisions, or discussing next steps. Management needs to determine how a number of key risks will be mitigated, as the various contracts and disclosures from [REDACTED] will govern the expected relationship with the Bank. Furthermore, the following concerns were not identified within contract review and require evaluation:

- [REDACTED] website has published³ a variety of other related legal documents, such as E-Sign Consent, Licenses, and a Commercial Entity Agreement, that are likely relevant to the services the Bank is seeking. (v1⁴, pg 60)
- [REDACTED] Draft Master Services Agreement ([REDACTED] MSA) lacks provisions regarding proof of value for the reserve account that was not identified within the contract review.
- The [REDACTED] MSA includes narrative around [REDACTED] know-your-customer obligations with associated tests that will be performed; however, the contract review did not identify the lack of specific frequency and content requirements for testing. (v1, pg 126)

³ [REDACTED]

⁴“v1”, “v2” “v3”, “v4” refers to each of the four volumes of data provided by the bank to examiners.

Risk Assessment – [REDACTED]

Management’s narrative within the *stablecoin as a payment* risk review (risk assessment) includes both a payment use case and information on the Bank’s desires with associated risks on becoming a distributor as well as an issuer. Initial findings indicate an incomplete risk assessment process regarding proposed activities. Numerous risks have not been fully evaluated, and management responses often transition between the two use cases without fully addressing each activity. Management should conduct an in-depth risk assessment on each of the use cases since each area encompasses specific risks unique to the proposed activities. Furthermore, the following specific concerns were noted with each of the areas considered within the stablecoin risk assessment.

Credit Risk

In the Bank’s risk assessment that analyzed credit risk for stablecoins is considered “[REDACTED]” with a “[REDACTED]” outlook. Management noted that there is a small amount of credit risk or counterparty risk, which is unsupported. Narrative in the February 2023 Business Plan does not discuss risks associated with proving reserves, which is critical to a stablecoin’s backing. In addition, management’s credit risk narrative discusses mitigating factors related to the digital asset lending function, such as the Bank’s current asset quality rating and credit risk profile, which are not applicable to this proposed activity. The following areas were either not considered within the risk assessment or there was a lack of narrative to support the risk rating:

Not Discussed:

- Performance of obligations.
- Practices and abilities to monitor reserves.
- Potential for price arbitrage.
- Shift in underlying assets, if any.
- Recourse protections, if any, regarding mismanagement or loss of underlying assets.
- Settlement practices that discuss on-chain transfers compared to Bank facilitated transfers through the proposed float account.

Unsupported Narrative:

- Management’s narrative discusses the need to develop a distinct stablecoin policy, which has yet to be developed. (v3, pg 4)

Strategic Risk

In the Bank’s risk assessment, strategic risk is considered “[REDACTED]” with a “[REDACTED]” outlook. Management did not provide any commentary regarding how this rating was assigned or any action plans to mitigate strategic risk. The May 2022 Business Plan as well as the February 2023 Business Plan discuss a number of different stablecoin entry points, such as issuing stablecoins, facilitating payments or transactions related to stablecoins, allowing for stablecoin activities associated with debit cards, and developing self-sovereign identity protocols tied to stablecoin

activities. Management should conduct an in-depth risk assessment on each of the proposed use cases as each area encompasses specific risks unique to the proposed activities. In addition, the following areas were either not considered within the risk assessment or there was a lack of narrative to support the risk rating:

Not Discussed:

- Development plans, controls, and policies for stablecoin issuances and debit card development.
- Relationships with affiliates and other companies to construct the application program interface (API) framework.
- Regulatory and economic risks surrounding the stablecoin-related industry.
- Management noted that the Bank desires to use non-custodial wallets; however, no information or risk assessment was performed on which wallets would be chosen to support Bank operations or which wallets the Bank may offer to customers, if applicable.

Unsupported Narrative:

- Management's narrative indicates stablecoin projections do not materially impact the Bank's financial position, which is unlikely given the financial projections provided within the May 2022 Business Plan. (v3, pg 9)

Compliance Risk

In the Bank's risk assessment, compliance risk is considered "[REDACTED]" with an "[REDACTED]" outlook. While this assessment is likely appropriate and accurate, there are a number of areas that were not discussed. This includes the lack of AML/CFT and compliance programs in place to oversee the associated stablecoin risk. In addition, the following areas were either not considered within the Bank's initial risk assessment or there was a lack of narrative to support the risk rating:

Not Discussed:

- Specifically applicable laws, regulations, guidance, and policies that the Bank needs to be mindful of regarding this service, including UDAP and 12 C.F.R. Part 328.
- Monitoring practices surrounding [REDACTED] affiliates, and [REDACTED] vendors to ensure the parties adhere to applicable laws, regulations, guidance, and policies.
- Various potential liability or recourse risks associated with the products.

Unsupported Narrative:

- The risk assessment asks for management's narrative around how the service may impact AML/CFT areas; however, management's response was limited to how the activity is not expected to substantially change the Bank's AML/CFT risk appetite, which is unlikely and requires further explanation. (v3, pg 12)

- Management did not opine on the lack of policies and procedures within the policies and procedures section. (v2, pg 11)

Operational Risk

In the Bank's risk assessment, operational risk was considered "[REDACTED]" with an "[REDACTED]" outlook. While action plans noted areas that need to be developed and tested, a variety of operational risks were not considered or properly evaluated within the risk assessment. In particular, the [REDACTED] MSA, [REDACTED] Agreement, and [REDACTED] Agreement expose the Bank to a number of risks that have not been properly addressed. The following areas were either not considered within the risk assessment or there was a lack of narrative to support the risk rating:

Not Discussed:

- Agreements
 - Both the [REDACTED] MSA and [REDACTED] Agreement reference a [REDACTED] affiliate of [REDACTED]. The risk assessment lacked any discussion on this affiliate, including any roles or risks it may pose to operations. (v1, pg 85, 100, 101, 105)
 - The [REDACTED] MSA references [REDACTED] as well as narrative regarding the operational, consensus process, and settlement role for [REDACTED]. The risk assessment lacked any discussion of this party and risks it may pose. (v1, pg 86)
 - The [REDACTED] MSA states that other supportive blockchains may be involved in the settlement process or a swapping mechanism may be used. The risk assessment lacked any discussion of cross-chain settlement risk. (v1, pg 89, 91)
 - The [REDACTED] MSA allows for other digital assets that may be supported within a [REDACTED] account. The risk assessment lacked any discussion regarding other supportable crypto assets related to this service. (v1, pg 89, 91)
 - The [REDACTED] MSA states that [REDACTED] may take three days to settle for either the Bank or the customer while other supportable digital assets referenced within the Agreements indicate a settlement window "[REDACTED]". The risk assessment lacked any discussion regarding funds availability or settlement risk regarding these settlement timeframes. (v1, pg 92)
 - The [REDACTED] MSA allows [REDACTED] to revise or suspend the funds availability schedule. The risk assessment lacked any discussion regarding this risk, including any mitigating practices or controls. (v1, pg 92)
 - The [REDACTED] MSA allows [REDACTED] to authorize any Bank liabilities payable to [REDACTED] without Bank notice. This set-off provision was not discussed in the risk assessment. (v1, pg 93)
 - The [REDACTED] MSA requires the Bank to fund a reserve account that it has no right to manage or grant security interest in. The risk assessment did not discuss the potential risks related to this account. (v1, pg 93)
 - The [REDACTED] MSA provides a license for the Bank to access [REDACTED] APIs. The risk assessment had no mention of what APIs will be used and the testing/due diligence required prior to connecting or passing through API access to end users. (v1, pg 94)

- The [REDACTED] MSA provides that the Bank can receive access to one AML/CFT audit on [REDACTED] per year. The risk assessment lacked any discussion regarding this singular audit or the risk associated with no other audit requirements. (v1, pg 98)
- The [REDACTED] MSA discusses various limits of liability associated with [REDACTED] services. The risk assessment did not include any discussion on liability risk. (v1, pg 99, 100)
- The [REDACTED] Agreement provides that [REDACTED] can appoint a third-party to process a user's specific personal data on [REDACTED] behalf, which was not considered within the risk assessment. (v1, pg 107)
- The [REDACTED] Agreement provides for a payment service through other supported digital asset transaction services, which was not considered within the risk assessment. (v1 1, pg 110)
- The [REDACTED] Agreement clarifies that transactions may commence in currencies other than U.S. Dollars. International exchange or acceptance risk was not considered within the risk assessment. (v1, pg 110)
- The [REDACTED] Agreement clarifies that other services and practices are allowed, such as [REDACTED] that were not discussed within the risk assessment. (v1, pg 115)
- The [REDACTED] Agreement indicates that [REDACTED] will create a digital account for the Bank to enable wallet services; however, the account's purpose is unclear given the contract narrative, which appears to indicate the Bank cannot hold [REDACTED] within the account. Nonetheless, the risk assessment lacked any consideration regarding this account. (v1, pg 116)
- The [REDACTED] Agreement indicates the Bank will be solely responsible for providing support to its end users, which was not considered within the risk assessment. (v1, pg 117)
- Other Documents and Areas
 - [REDACTED] Form S-4 mentions a variety of operational, internal, and external risks that have not been considered within the risk assessment, including [REDACTED] third-party partners used to help provide services. (v1, pg 191 – 275)
 - [REDACTED] Legal and Privacy Disclosure note oversight with hosted wallets without clarifying terms around non-custodial wallets or activities that have not been considered within the risk assessment. (v1, pg 967)
 - [REDACTED] Legal and Privacy Disclosure discuss bridges and multi-chain structures that were not considered within the risk assessment and do not appear to be desired services based on management comments. (v1, pg 967, 968)
 - [REDACTED] Legal and Privacy Disclosure note certain limitations of liability that were not considered within the risk assessment. (v1, pg 973, 974)
 - [REDACTED] Legal and Privacy Disclosure note a variety of rules around how unauthorized or incorrect transaction may impact the user that were not considered within the risk assessment. (v1, pg 974, 975)
 - [REDACTED] Policy notes that [REDACTED] has the ability to blacklist wallets, which were not considered within the risk assessment. (v1, pg 1018)

- [REDACTED] website has published⁵ a variety of other related legal documents, such as [REDACTED] Privacy Policy, E-Sign Consent, Licenses, Commercial Entity Agreement, and Acceptance Use Policy, that were not considered within the risk assessment.
- The risk assessment does not consider risks surrounding the proposed “float account” and how security interests may need to be developed. (2/28/23 meeting)

Unsupported Narrative:

- The risk assessment narrative notes that the Bank has a robust set of procedures around change management; however, those procedures were not explained or questioned given the lack of oversight noted above.
- The risk assessment requires the new service to align with the Bank’s operational capacity, which was not fully addressed by management and differs from management comments received regarding the need for additional hires and the buildout of AML/CFT and compliance programs.

Liquidity Risk

In the Bank’s risk assessment, liquidity risk was considered “[REDACTED]” Support for the risk being “[REDACTED]” relies on liquidity moving directly to the stablecoin issuer and the Bank creating redemption limits. The lack of a risk rating and management’s response is unsupported. The [REDACTED] MSA is silent regarding the Bank’s right to monitor [REDACTED] reserves, which act as the main liquidity protection for the stablecoin. Furthermore, Bank procedures have not been established to oversee the proposed “float account” that will hold Bank-owned [REDACTED] to transact with Bank customers. The following areas were either not considered when not assigning a risk rating or there was a lack of narrative to omit a risk rating:

Not Discussed:

- The February 2023 Business Plan discusses placing [REDACTED] on the balance sheet, with terms further explained within the [REDACTED] Agreement. This activity was not considered from a liquidity perspective within the risk assessment. (v1, pg 41, 64, 115)
- The February 2023 Business Plan discusses key characteristics associated with stablecoins, including the assets in reserve as well as proof of reserve, which were not considered from a liquidity perspective within the risk assessment.
- COO [REDACTED] noted that [REDACTED] has performed a liquidity volatility analysis on [REDACTED]; however, the results or findings of that review were not considered within the risk assessment. (2/28/23 meeting)

Unsupported Narrative:

⁵ [REDACTED]

- Management's response regarding future funding costs is unsupported. The narrative addresses the Bank's plans on issuing a stablecoin rather than the current initiative of placing [REDACTED] on the Bank's balance sheet. (v3, pg 15)
- Management's response regarding maintaining a robust liquidity system notes its prior regulatory rating for liquidity. The risk assessment lacked narrative on liquidity management practices regarding the proposed service. (v3, pg 15)
- Management's response regarding measurement tools and early warning indicators are more reflective of the Bank's traditional monitoring practices rather than details regarding liquidity tools necessary to monitor stablecoin movements. (v3, pg 15, 16)
- Management's response indicates that this new service's impact to liquidity risk is negligible, which is not supported based on the proposed volume that management is pursuing within the payments space. (v3, pg 16)

Interest Rate Risk (IRR)

In the Bank's risk assessment, IRR was considered "[REDACTED]." Management's narrative indicated that IRR is negligible as long as the stablecoin issuer manages the reserve's collateral. The lack of a risk rating and management's response is unsupported. Given that [REDACTED] reserve account has traditionally been more weighted with securities than cash, IRR exposure exists, especially given the current interest rate environment. In addition, IRR exposure may impact the Bank directly if customers choose to liquidate [REDACTED], which currently pays no interest, to seek other alternatives for a yield. The customer's opportunity cost to earn interest may cause withdrawals to occur more quickly than the Bank expects, which could result in the need to seek expensive funding sources if material liquidations occur. The following areas were either not considered within the risk assessment or there was a lack of narrative to support the risk rating:

Not Discussed:

- Management has not projected the impact of holding [REDACTED] on balance sheet in rising or falling rate environments, which was not considered within the risk assessment.

Unsupported Narrative:

- Management noted the Bank has effective IRR policies in place; however, the IRR policies do not discuss the proposed adoption of stablecoins and their potential impact on IRR management. (v3, pg 17)
- Management noted the Bank has proper controls over risk measurement and monitoring; however, the proposed [REDACTED] MSA lacks controls on the Bank's right to oversee IRR exposure with the issuer. (v3, pg 17)

Reputation Risk

In the Bank's risk assessment, reputation risk is considered "[REDACTED]" with an "[REDACTED]" outlook. Management noted concerns, such as stablecoin failures, that could present systemic risk to the industry when coupled with the risk that a stablecoin's reputation may impact the Bank's reputation. While management's comments on reputation risk provided insight as to how the

Bank may handle and monitor reputational risks, the following areas were either not considered within the risk assessment or there was a lack of narrative to support the risk rating:

Not Discussed:

- Management's outsourced due diligence on [REDACTED] reputation risk revealed negative news and sentiment from the Better Business Bureau, which was not considered within the risk assessment. (v3, pg 19)
- The [REDACTED] MSA as well as the [REDACTED] Proxy Statement indicates that [REDACTED] is governed by [REDACTED] and [REDACTED] each own [REDACTED] percent of [REDACTED]. The risk assessment did not include any narrative around ownership structures. (v1, pg 89-90, 176)
- Management's narrative around identifying and assessing reputation risk focused on a narrow scope that did not include other research that may expose consumer sentiment or complaints; thus, raising questions as to whether a holistic view of reputation risk was performed. (v3, pg 19)
- The risk assessment did not consider reputation risks associated with items such as external complaints, negative news, pricing arbitrage, settlement procedures, staking applicability, or reserve assets.
- The risk assessment lacked an assessment on [REDACTED] management team and ability to weather periods of negative news or changes in management.
- The risk assessment did not consider reputation risk surrounding third-parties that [REDACTED] is contracted with to help administer [REDACTED].

Unsupported Narrative:

- The risk assessment format includes an area for management to discuss short- and long-term reputation risk; however, a response was not provided. (v3, pg 19)
- The risk assessment indicated the Bank has a customer complaint department to help mitigate risk. However, given that management would be responsible for handling complaints related to [REDACTED], the risk assessment should consider staffing levels and training requirements necessary to mitigate reputation risk. (v3, pg 19)
- The risk assessment format includes an area for management to discuss the need for an independent review of reputation risk; however, the response was not applicable to the question. (v3, pg 20)

CRYPTO-ASSET CUSTODY PROPOSAL

Due Diligence – [REDACTED]

According to management, documented due diligence primarily consisted of a contract review performed by legal counsel at affiliate [REDACTED] as well as vendor due diligence performed by [REDACTED]. While management noted it reviewed both outsourced due diligence reviews, a number of concerns were identified that have not been formally addressed.

In addition, management stated it reviewed a variety of other documents on [REDACTED]; however, those reviews were not formally documented. Documents provided that did not accompany a formal review by management include, but are not limited to, [REDACTED] parent company's 10-K, [REDACTED] test accounts, [REDACTED] Request For Information (RFI) Document, and [REDACTED] slide deck from [REDACTED]. Specific areas discussed in the aforementioned documents that should have been considered in management's due diligence include, but are not limited to, the following:

- The [REDACTED] RFI noted that [REDACTED] provides a secure custody solution, which differs from other documents reviewed where [REDACTED] provides said service. (v2, pg 807)
- The [REDACTED] RFI indicated that [REDACTED] has a regulatory framework in place to protect client assets held at [REDACTED] in the event of bankruptcy; however, this risk was not reviewed within Bank's due diligence documents. (v2, pg 827)

Specific concerns regarding the contract review and [REDACTED] due diligence are discussed below.

Contract Review – [REDACTED]

On December 22, 2022, VP [REDACTED] provided a contract review of the Draft [REDACTED] Agreement) as well as appendices for other services such as trading and pricing. The review is generally effective and identified a variety of concerns including, but not limited to, the lack of data breach procedures and specific auditing rights. In addition, the contract review identified the [REDACTED] Agreement includes a number of services that are not related and more than sixteen areas where the [REDACTED] Agreement is missing critical information.

While these risks were identified during the affiliate's contract review, no subsequent actions have taken place, which includes updating risk assessments, proposing contract revisions, or determining next steps. Management needs to determine how a number of key risks will be mitigated, as the various contracts and disclosures from [REDACTED] will drive the expected relationship with the Bank. Furthermore, the following concerns were not identified within the contract review:

- The [REDACTED] Agreement lacks a definition section, which is critical given that a number of terms could be misinterpreted. This includes terms such as vault balance, trading balance, and miner fees. (v2, pg 852, 853)
- The [REDACTED] Agreement permits "[REDACTED]" that have not been defined. (v2, pg 852)
- The [REDACTED] Agreement allows [REDACTED] to take up to 24 hours to submit a transaction for withdrawal from the applicable digital asset network, which was not discussed within the contract review or risk assessment. (v2, pg 853)
- The [REDACTED] Agreement indicates that [REDACTED] will determine which digital assets to support for custody services, compared to the Bank's desire to provide custody service for bitcoin and ether. (v2, pg 853)

- The [REDACTED] Agreement states that [REDACTED] can monitor custody transactions for internal purposes, which was not discussed within the contract review. (v2, pg 853)
- The [REDACTED] Agreement provides that [REDACTED] will be responsible for keeping a ledger on the Bank's behalf, which was not evaluated during due diligence. (v2, pg 857)
- The [REDACTED] Agreement lacks details on how [REDACTED] will conduct custody services, what controls will be enforced to control critical elements of custody services, and a variety of other features critical to administering custody services.

Vendor Due Diligence – [REDACTED]

The Bank outsourced vendor due diligence to [REDACTED], which included a review of [REDACTED] standard business documents (such as business licenses, complaints, and negative news articles) as well as a review of [REDACTED] System and Organization Controls (SOC) 2 Type 2 Report focused on system and organizational controls. The final [REDACTED] Report rated [REDACTED] as [REDACTED] risk with a confident control environment. However, examiners identified a number of concerns with the due diligence that reflect both a limited scope and lack of action or assessment based on the documents reviewed. At a minimum, management and [REDACTED] should have noted the concerns as well as a need to remedy the risk. For example, the following areas reflect concerns with the depth of [REDACTED] review as well as a lack of management follow-up on the issued report.

- The [REDACTED] Report noted [REDACTED] as the vendor with [REDACTED] as the service provider; however, little to no review of [REDACTED] commenced. Furthermore, various mentions to [REDACTED] were also noted with custody services, which have not been considered.
- The SOC Report notes a number of external systems and sub-servicers that support [REDACTED] application. Those systems and services were not included within the SOC review and not followed up on by management to perform due diligence. (v2, pg 339)
- The SOC Report noted a mixture of internal and vendor developed applications for custody production. The review did not include further vetting on those applications. (v2, pg 338)
- The SOC Report noted that keys could be reused, which was not further evaluated within the due diligence. (v2, pg 347)
- The [REDACTED] Report noted three recommendations and six exceptions to the SOC Report that have not been reviewed by management. (v2, pg 321, 324)
- The [REDACTED] Report identified more than [REDACTED] consumer complaints against [REDACTED] made to the Better Business Bureau. Management did not document its review of the complaints or receive any other information on the complaints not provided. The [REDACTED] Report does not provide sufficient information to determine if any of the vendor-related complaints involve custody-specific unfair or deceptive acts or practices or other consumer regulatory compliance concerns. Furthermore, there was no discussion on whether [REDACTED] considered complaints in its assessment. (v2, pg 271-280)
- The [REDACTED] Report identified more than [REDACTED] consumer complaints against [REDACTED] made to the Ripoff Report and the Consumer Financial Protection Bureau (CFPB). [REDACTED] included [REDACTED] complaints from Ripoff Report and no complaints from the CFPB.

Management did not document any complaint reviews or concerns that other complaints were not provided. Furthermore, there was no discussion on if [REDACTED] considered complaints in its assessment. (v2, pg 304-315).

- The [REDACTED] Report includes documents from [REDACTED] that are either incomplete or unreadable, such as the date signed on the W-9 (v2, pg 319), and certain details on [REDACTED] insurance. (v2, pg 301).

Risk Assessment – [REDACTED]

Management's narrative within the *digital asset custody* risk assessment noted the Bank's desire to license with a third-party, [REDACTED], to provide digital asset custody services for bitcoin and ether. Initial findings indicate an incomplete risk assessment program for proposed custody activities, and numerous risks were not fully evaluated. Management should conduct an in-depth risk assessment on each of the use cases as each area encompasses specific risks unique to the proposed activities. The following concerns were noted with each section assessed.

Credit Risk

In the Bank's risk assessment, credit risk is considered "[REDACTED]" with a "[REDACTED]" outlook. For mitigating factors, management noted that credit risk is entirely inherited from third-party risk, which is not considered a mitigating factor. Furthermore, financial reviews of [REDACTED] and its related affiliates such as [REDACTED] were not considered, and the proposed [REDACTED] Agreement includes services that are materially different from what the Bank appears to be seeking. The following areas were either not considered within the risk assessment or there was a lack of narrative to support the risk rating:

Not Discussed:

- The risk assessment did not include a narrative for [REDACTED] which will provide the custody service, or third-parties that [REDACTED] contracts with to support their services.
- The risk assessment did not consider concerns identified in the SOC Report, including carve outs of complimentary user entity controls or service agreements that [REDACTED] has with third-parties or subservicers to support their operations. (v3, pg 330)

Unsupported Narrative:

- Management's response in the risk assessment noted a variety of areas that will be completed in the future, such as how the Bank "[REDACTED]". These items should be evaluated prior to assigning a risk rating and considered within the risk assessment. (v3, pg 24)
- The risk assessment considers various lending and asset quality attributes of the Bank's traditional banking services within the credit risk rating, which is unrelated to this specific product. (v3, pg 24)

- The risk assessment considers the Bank's custody policies and procedures as support for the risk assessment rating, yet policies and procedures have not been developed. (v3, pg 24)

Strategic Risk

In the Bank's risk assessment, strategic risk is considered "[REDACTED]" with a "[REDACTED]" outlook. Management discussed a variety of mitigating factors, such as a limited set of functions and the need to create a quantitative risk assessment and obtain an audit of the proposed program before going live. While these mitigates provide some effective controls, additional considerations to risk related to the program should be considered. The following areas were either not considered within the risk assessment or there was a lack of narrative to support the risk rating:

Not Discussed:

- The risk assessment did not include a narrative on how [REDACTED] may change its strategic direction on providing custody services, which could fall outside the Bank's risk tolerance.

Unsupported Narrative:

- The risk assessment discussed the reservations and pitfalls of centralized parties; however, details around how the Bank may be viewed as a centralized party if the proposed activities are undertaken, were lacking. (v3, pg 25)
- The risk assessment noted the product does not impact the Bank's financial position, including capital, which is unlikely given the proposed service does come with an expense that will not have a related income stream. (v3, pg 26)

Compliance Risk

Compliance risk is considered "[REDACTED]" with an "[REDACTED]" outlook. The risk assessment is an early iteration, which lacks details such as the applicability of specific consumer protection regulations, areas of potential customer confusion, and specific examples of the Bank's risk-mitigating CMS controls. The risk assessment stated management plans to complete a subsequent quantitative risk assessment during the design phase of product development and highlighted the Bank's CMS controls for this product are still in development. The risk assessment specifically called attention to the fact that the "[REDACTED]" (v3, pg 28)

Operational Risk

Operational risk is considered "[REDACTED]" with an "[REDACTED]" outlook. Management identified a variety of risks and mitigants; however, a number of additional areas were not considered. For example, any downtime that [REDACTED] may experience could affect operations as well as potential settlement issues, accounting discrepancies, or reconciliation differences. In addition,

the following areas were either not considered within the risk assessment or there was a lack of narrative to support the risk rating:

Not Discussed:

- Screenshots of the [REDACTED] test accounts demonstrate a variety of different vault wallets and tradable wallets. The [REDACTED] Agreement indicates the Bank would be the party determining the crypto-assets within those accounts, which has not been risk assessed. (v2, pg 27, 856). However, additional statements in the [REDACTED] Agreement indicate [REDACTED] may have some discretion on where crypto-assets are maintained, creating inconsistency that was not considered within risk assessments. (v2, pg 857)
- Screenshots of the [REDACTED] test accounts indicate various different trade and vault wallets are available based on the different crypto-assets, which was not considered within the risk assessment. (v3, pg 35-36)
- Terms indicate that the Bank agrees to an account statement's accuracy if the Bank does not contact [REDACTED] within [REDACTED] days, which was not considered within the risk assessment. (v2, pg 39)
- Screenshots of the [REDACTED] test accounts indicate unique users can have their own wallet/profile, which was not considered or discussed within the risk assessment. (v2, pg 143)
- The Insurance Overview of [REDACTED] contains a variety of carve-outs that were not considered within the risk assessment. (v2, pg 299)
- The [REDACTED] RFI noted client assets held with [REDACTED] are in *for the benefit of* (FBO) accounts that will hold both the Bank's assets as well as assets of [REDACTED] other clients. The risk of holding assets at [REDACTED], as well as the structure of an FBO account, were not considered within the risk assessment. (v2, pg 813)
- The risk assessment lacks narrative on how the Bank or its customers may be impacted if custody services cannot be completed by [REDACTED] or the Bank, including mitigating factors that may be needed.
- The risk assessment lacks narrative on private key control environments.

Unsupported Narrative:

- Management responses within the risk assessment stated the proposed service aligns with the Bank's operational capacity; however, it is unclear how the current and projected staffing models will administer the program based on staff/roles needed. (v3, pg 31; v2, pg 25)
- The risk assessment noted the Bank's existing controls can oversee [REDACTED] activities; however, the Bank's control environment does not discuss crypto-asset custody oversight other than noting additional analysis will need to be completed. (v3, pg 31)
- The risk assessment evaluated whether the Bank's auditors have unfiltered access to information, whereby the Bank noted no issues. However, given that the scope is based on traditional banking activities rather than the Bank's ability to obtain, receive, and require audits of [REDACTED], additional management analysis is needed within the risk assessment. (v3, pg 32)

Liquidity Risk

Liquidity risk is considered [REDACTED] in the Bank's risk assessment. While this assessment is supported based on the identified services within the February 2023 Business Plan, the [REDACTED] Agreement contains a number of ancillary services that may impact liquidity (such as the ability to stake as well as the settlement timelines for a transaction to process). Management may need to revise this omitted risk assessment section once the [REDACTED] Agreement's provisions are revisited.

IRR

IRR is considered [REDACTED] in the Bank's risk assessment. While this assessment is likely supported based on the identified services within the February 2023 Business Plan, the [REDACTED] Agreement indicates a number of ancillary services that may impact IRR (such as the ability to stake). Management may need to revise this omitted risk assessment section once the Agreement's provisions are revisited.

Reputation Risk

In the Bank's risk assessment, reputation risk is considered "[REDACTED]" with an "[REDACTED]" outlook. Management's narrative indicates a risk mitigant being the Bank's limited online presence as well as discussions regarding how historical events within crypto-asset custody has exposed bad actors that erode public trust. While this information is helpful, and the overall risk rating is likely accurate, the reputation risk to the Bank for this product was not thoroughly discussed. The following areas were either not considered within the risk assessment or there was a lack of narrative to support the risk rating:

Not Discussed:

- The risk assessment did not include any narrative around dissatisfied customers of [REDACTED] or [REDACTED] and how consumer sentiment may impact the proposed custody product and Bank.
- The risk assessment lacked narrative around a variety of reputation risks that [REDACTED] self-identified within public documents, such as a cyberattacks or security breaches, which could impact [REDACTED]'s reputation.

Unsupported Narrative:

- The risk assessment evaluated if the Bank has systems in place to manage reputation risk, with management's response being a Code of Conduct Policy for its internal employees. The risk assessment did not consider any reputation risk that may arise from the proposed [REDACTED] partnership or third-parties. (v3, pg 38)
 - A similar narrow focus was noted for other additional reputation risk responses.
- The risk assessment noted the Bank's vendor due diligence covers reputation risk; however, upon review of the vendor due diligence performed by [REDACTED], additional reputation risks need to be further evaluated. Given that [REDACTED] did not include the majority of

complaints within its report, coupled with the lack of substantive focus on reputation risk, management should reevaluate its response for this area. (v3, pg 38)

CRYPTO-ASSET LENDING PROPOSAL

Risk Assessment

Two high-level risk assessments (January 2022 [REDACTED] Risk Assessment and [REDACTED] Risk Assessment) were provided, with both having inconsistent results. Furthermore, all mitigation plans within the risk assessment are either incomplete, yet to be developed, or not specific to the [REDACTED]. For example, credit risk is rated as [REDACTED] even as the narrative indicates that policies and training procedures would need to be developed. In addition, liquidity is listed as one of the risks; however, the risk vector and direction is not assigned since management considers any liquidity risk related to this lending product as nonexistent. Based on conversations with management, liquidity risk is still the single most important part of the digital asset space. A variety of other areas also lacked support or were irrelevant to the actual risks associated with crypto-asset lending products.

As another example, the January 2022 [REDACTED] Risk Assessment and the [REDACTED] Risk Assessment do not provide actionable details. The current risk assessments do not present product-specific risks that would enable readers to understand the CMS needs necessary to manage the consumer compliance risks. More specifically, neither of the two initial risk assessments clearly establishes what consumer protection regulations are directly applicable to the [REDACTED] product. Bank management plans to prepare a more detailed consumer compliance risk assessment as part of the Bank's product development process. Additionally, neither of the two risk assessments highlight crypto-asset specific product features that may introduce risk of customer harm if not properly communicated to the customer, such as crypto-asset specific transaction fees, practices for resolving margin calls, or default remedies.

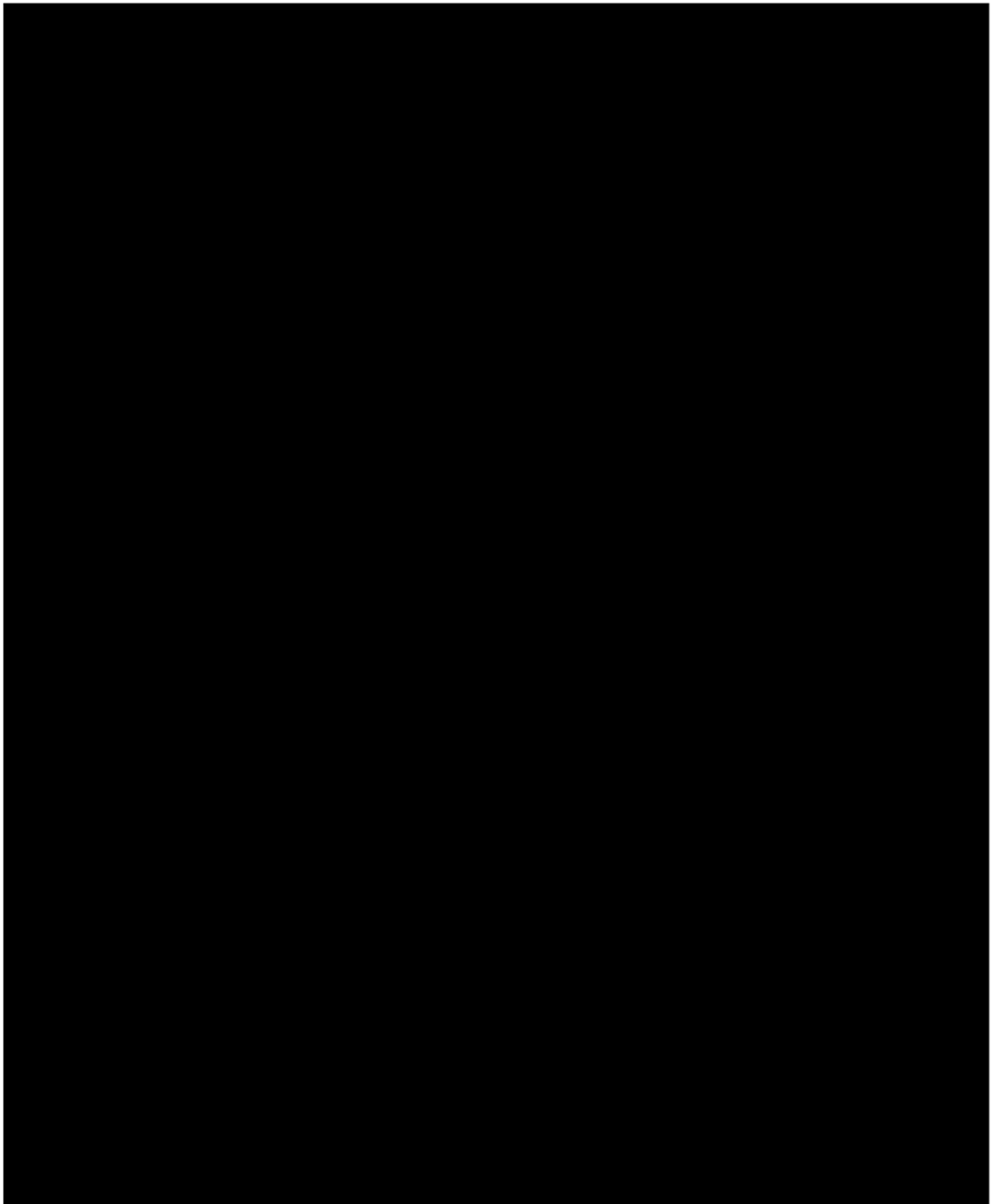
Without a complete risk assessment on all potential risks, the potential impact and possible viable strategies for reducing undue exposure remain unknown.

Crypto-Asset Lending Policy

Management has not developed a loan policy that is specific to crypto-asset lending. The proposed lending product falls closely with other commercial and industrial loan types, especially asset-based lending activities that currently take place at the Bank. As such, management is planning to update the Bank's [REDACTED] Lending Policy with a specific crypto-lending section. Management should draft and approve lending procedures that address the variety of risks associated with crypto-asset lending, especially as repayment could be heavily depended on the collateral's volatility if a loan were to default.

Legal Opinions / Independent Review

Management engaged the law firms of [REDACTED] to analyze legal aspects of the [REDACTED] program. Both firms concluded [REDACTED]



⁶See Uniform Law Commission, 2022 Amendments to UCC.

CRYPTO-ASSET MARKET MAKING

Due Diligence – [REDACTED]

According to management, documented due diligence for market making services primarily consisted of a contract review performed by affiliate [REDACTED] as well as vendor due diligence performed by [REDACTED]. While management noted they reviewed all of the findings, a number of concerns were identified that have not been formally addressed. Concerns related to the contract review and [REDACTED] review are discussed below.

Contract Review – [REDACTED]

On December 22, 2022, [REDACTED], Vice President of Regulatory Strategy & Affairs for affiliate [REDACTED] provided a contract review for the [REDACTED] Broker Agreement ([REDACTED] Broker Agreement), which included appendices for custody services, trading, and pricing. The review is generally effective and identified a variety of concerns. Most importantly, the review identified a variety of services within the [REDACTED] Broker Agreement that management is not likely seeking. Thus, a more narrowed focus within the [REDACTED] Broker Agreement will need to be pursued. While this and a variety of other concerns have been identified, no action to remediate or negotiate [REDACTED] Broker Agreement provisions has been made by management. Furthermore, the following concerns were not identified within the contract review that should be evaluated:

- The [REDACTED] Broker Agreement states that services provided by [REDACTED] will include custody, trade execution, lending or post-trade credit (if applicable), and other services (collectively, the “Prime Broker Services”) for certain digital assets. “Other services” was not fully evaluated within the due diligence documents. (v2, pg 837)
- The [REDACTED] Broker Agreement provides that [REDACTED] will generate a single account statement. Management has not considered how customers that have ownership interests within the single account will receive details regarding their balance or ownership. (v2, pg 837)
- The [REDACTED] Broker Agreement provides that [REDACTED] will allow the Bank to stake digital assets, which was not considered within due diligence or risk assessments. (v2, pg 838)

Due Diligence - [REDACTED]

The vendor due diligence performed by [REDACTED] is insufficient for the proposed market making activity. The report includes no mention of the proposed market making services offered by [REDACTED] other than references to a [REDACTED] employee and [REDACTED] services in a SOC Report. Given the lack of a sufficient [REDACTED] scope, additional due diligence is needed for management to fully understand vendor-specific risks related to [REDACTED] and the proposed offerings.

Additional Due Diligence Concerns

In addition to the previously noted reviews, management stated that they reviewed a variety of other due diligence documents on [REDACTED]; however, those reviews were not formally documented. Documents provided that did not accompany a formal review by management include, but are not limited to [REDACTED] 10-K filing with the Securities and Exchange Commission, [REDACTED] test accounts, [REDACTED] RFI, as well as a [REDACTED] slide deck from [REDACTED]. Specific areas discussed in the previously noted documents that should be considered in management's due diligence include, but are not limited to:

- The [REDACTED] slide deck notes that large positions can be fulfilled efficiently with an advance smart order router, powerful trading toolkit, and asset agnostic exchange; was not fully reviewed or understood by management. (v2, pg 7)
- The [REDACTED] slide deck notes that algorithmic execution tools will be used and that "[REDACTED]" which was not fully vetted by management. (v2, pg 10, 12)
- Screenshots of the [REDACTED] test accounts indicate internal crypto-asset withdrawals and deposits will be permitted; however, this risk was not discussed within the risk assessment. (v2, pg 125)
- The [REDACTED] RFI notes that automated trading capacities can be used by the client, which was not considered within due diligence or risk assessment reviews. (v2, pg 819)
- The [REDACTED] RFI notes that [REDACTED] maintains an internal policy that discusses executing transactions using a commercially reasonable effort; however, those policies and procedures were not obtained or considered within due diligence documents. (v2, pg 820)
- The [REDACTED] RFI indicates that order inputs are routed to the most efficient venues for execution, which is somewhat vague on how the routing decision is made and was not considered within due diligence. (v2, pg 816, 817)
- The [REDACTED] RFI notes the multi-venue execution parties used for training; however, the risk assessment is silent in regards to potential risks with each, as well as the two unidentified parties that could not be disclosed due to confidentiality restrictions. (v2, pg 818)

Risk Assessment – Exchange Services

Management's narrative within the [REDACTED] *Risk Review* (risk assessment) noted management's desire to offer its customers access to crypto-assets. Initial findings indicate an incomplete risk assessment program regarding the Bank's proposed market making activities. Numerous risks have not been fully evaluated. Management should conduct an in-depth risk assessment on each of the use cases as each area encompasses specific risks unique to the proposed activities. The following concerns were noted:

Credit Risk

In the Bank's risk assessment, credit risk is considered "[REDACTED]" with a "[REDACTED]" outlook. The questions within the narrative, as well as management's responses, primarily focus on lending, which is not applicable to this category.

Strategic Risk

In the Bank's risk assessment, strategic risk is considered "[REDACTED]" with a "[REDACTED]" outlook. Management notes its desire for this to be an ancillary service that complements the other digital asset proposals. Nonetheless, risks and objectives still need to be considered. The risk assessment captures some of those risks and objectives; however, it appears that narratives specifically from the custodial risk assessment were pulled forward into this area, which represents a different set of risks. In addition, the following areas were either not considered within the risk assessment or there was a lack of narrative to support the risk rating:

Not Discussed:

- The risk assessment does not include information on a number of additional services that are described within the [REDACTED] Broker Agreement, such as staking, stacking, or voting. (v2, pg 838)

Unsupported Narrative:

- A number of management responses are reflective of the proposed custody service rather than market making services. (v3, pg 61, 62)

Compliance Risk

In the Bank's risk assessment, compliance risk is considered "[REDACTED]" with an "[REDACTED]" outlook. As previously discussed, the risk assessment is an early iteration, which lacks details, such as the applicability of specific consumer protection regulations, areas of potential customer confusion, and specific examples of the Bank's risk-mitigating CMS controls. While the risk assessment is missing important compliance details, which are customarily evaluated before product launch, the assessment acknowledges that it is only an initial review. The risk assessment stated that management plans to complete a subsequent quantitative risk assessment during the design phase of product development and highlights that the Bank's CMS controls for this product are still in development. For example, the risk assessment calls attention to the fact that the "[REDACTED]" (v3;

[REDACTED] pg 28)

Operational Risk

In the Bank's risk assessment, operational risk is considered "[REDACTED]" with an "[REDACTED]" outlook, which is unsupported. Similar to the other risk assessment areas, management's narrative continued to reflect custody services rather than facilitation services. In addition, the following areas were either not considered within the risk assessment or there was a lack of narrative to support the risk rating:

Not Discussed:

- The risk assessment did not consider internal policies or procedures to govern this program have not been developed.
- The risk assessment did not consider any operational risks discussed within [REDACTED] 2021 10-K. (v2, pg 424-804)
- The [REDACTED] Broker Agreement provides that the Bank will have full ability to engage in transactions with all digital assets offered by [REDACTED]. The risk assessment did not consider operational controls and the controls do not appear to be in place to restrict other digital asset activities that the management indicated it has no interest. (v2, pg 838)
- The [REDACTED] Broker Agreement identifies a number of operational risks associated with settlement of crypto-assets that were not discussed within the risk assessment. (v2, pg 843, 844)
- The [REDACTED] Broker Agreement provides that the Bank will be fully responsible for each transaction within [REDACTED], which was not evaluated within the risk assessment. (v2, pg 839)
- The [REDACTED] Broker Agreement provides that [REDACTED] can terminate the arrangement with cause, which includes if [REDACTED] becomes aware of any facts or circumstances with respect to the Client's financial, legal, regulatory, or reputational position, which could affect the Bank's ability to comply with its obligations under this [REDACTED] Broker Agreement. This provision was not considered within the risk assessment. (v2, pg 847)
- The [REDACTED] slide deck notes that large positions can be fulfilled efficiently with an advance smart order router, powerful trading toolkit, and asset agnostic exchange that were not considered within the risk assessment. (v2, pg 7)
- The [REDACTED] slide deck notes that algorithmic execution tools will be used, and "[REDACTED]" which was not fully considered within the risk assessment. (v2, pg 10, 12)
- The [REDACTED] RFI notes that automated trading capacities can be used by the client, which was not considered within the risk assessment. (v2, pg 819)
- The [REDACTED] RFI notes that [REDACTED] maintains an internal policy that discusses executing transactions on a commercially reasonable effort; however, those policies and procedures were not obtained or considered within due diligence documents. (v2, pg 820).

Unsupported Narrative:

- As noted above, a number of management responses continue to reflect custodial risk rather than facilitation risk. (v3, pg 67, 68)

Liquidity Risk

Liquidity risk is not rated in the Bank's risk assessment. The lack of a risk rating for this category is concerning, especially as liquidity would be removed from the Bank at a customer's discretion and sent to [REDACTED]. The impact of each outgoing transaction would reduce the Bank's liquidity position, and vice-versa for incoming transactions. There are also multiple other concerns that should be evaluated with liquidity risk, such as [REDACTED] ability to

settle and replenish the Bank's cash position on the customer's behalf as well as how liquidity could impact the Bank's capital levels. Management needs to revisit the lack of a liquidity risk rating and consider all relevant factors.

IRR

IRR is not rated in the Bank's risk assessment. While this assessment is supported based on the services identified within the February 2023 Business Plan, the [REDACTED] Broker Agreement indicates a number of ancillary services that may impact IRR (such as the ability to stake or a consumer's desires to shift to rate sensitive assets). Management may need to revise this omitted risk assessment section once the [REDACTED] Broker Agreement's provisions are revisited.

Reputation Risk

In the Bank's risk assessment, reputation risk is considered "[REDACTED]" with an "[REDACTED]" outlook. Management noted concerns that exchanges have experienced in the marketplace, including those that ignore a compliance risk management framework. However, other important facilitation reputation risks were not considered. The following areas were either not considered within the risk assessment or there was a lack of narrative to support the risk rating:

Not Discussed:

- The risk assessment did not include any narrative around dissatisfied customers of [REDACTED] and how consumer sentiment may impact the proposed market making product.
- The risk assessment lacked narrative around a variety of reputation risks that [REDACTED] has self-identified within public documents, such as a cyberattacks or security breaches, which could impact [REDACTED]'s reputation.

Unsupported Narrative:

- The risk assessment assessed whether the Bank has systems in place to manage reputation risk, with management's response being a Code of Conduct Policy for their internal employees. The risk assessment did not consider any reputation risk that may arise from the proposed [REDACTED] partnership or third-parties. (v3, pg 74). A similar narrow focus was noted with additional responses.
- The risk assessment noted the Bank's vendor due diligence covers reputation risk; however, upon review of the vendor due diligence performed by [REDACTED], additional reputation risks need to be further evaluated. Given that [REDACTED] did not include the majority of [REDACTED] complaints within their report, coupled with the lack of real focus on reputation risk, management should reevaluate the response to this area. (v3, pg 75)

**FDIC**

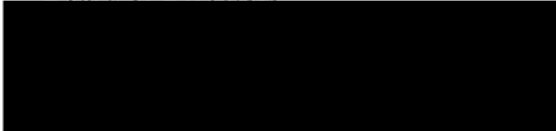
Federal Deposit Insurance Corporation
25 Jessie Street at Ecker Square, Suite 2300
San Francisco, California 94105

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

Sent via Secure email

December 17, 2024

Board of Directors



Subject: Response to Notification of Engagement in Crypto-Related Activities

Dear Members of the Board:

The FDIC acknowledged the notification provided by [REDACTED] (the Bank) dated May 31, 2022, regarding the Bank's intent to engage in proposed crypto activities including issuing and distributing stablecoins; providing digital asset safekeeping and custody services; originating loans collateralized by digital assets; and facilitating customer purchases and sales of digital assets. The FDIC also acknowledged the notification provided by the Bank dated August 5, 2022, of the Bank's intent to originate test accounts and perform testing on two digital asset infrastructure providers. The notifications were provided pursuant 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.

On July 28, 2022, the FDIC sent a letter to the Board acknowledging the Bank's plan to engage in crypto activities. The FDIC recognized that the plan to engage in the proposed crypto activities was in the early implementation stages and requested additional information to assess the safety and soundness and consumer protection implications. In that letter, the FDIC requested that, until we completed our review, that the Bank not proceed with planned activities, pending FDIC supervisory feedback, and that the Bank continue to update the FDIC on developments in the Bank's risk management framework and compliance management system. In response to the Bank's August 5, 2022, notification, the FDIC requested additional information and requested that the Bank provide the information requested in the FDIC's letter dated July 28, 2022. The Bank provided additional information in 2022 and 2023, including a June 9, 2023, Memorandum to the FDIC, Federal Reserve Bank of San Francisco, and the [REDACTED]. The Memorandum provided an update on the Bank's progress developing a risk framework and policies/procedures for the proposed crypto activities. The FDIC transmitted supervisory feedback to the Bank on March 18, 2024.

In a letter from the Bank dated May 10, 2024, Chairman of the Board [REDACTED] stated that the Bank had decided to eliminate proposed crypto activities from its current business plan; therefore, the Bank no longer intends to engage in the crypto activities outlined in the Bank's May 31, 2022, notification and its subsequent communications with the FDIC. Additional follow-up to clarify the Bank's strategic direction and plans was performed at the September 3, 2024, FDIC examination.

Based on the September 3, 2024, examination as well as the May 10, 2024, letter from Chairman [REDACTED] (which supersedes the March 18, 2022, and July 28, 2022, letters), we have acknowledged that the Bank no longer intends to pursue crypto-related activities as described in FIL-16-2022. In regard to the Bank's May 31, 2022, and August 5, 2022, notifications pursuant to FIL-16-2022, the FDIC's review is complete. We request that the Bank notify this office if the status of this activity, or other crypto-related activity, changes in the future.

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 Senior Case Manager [REDACTED] or Review Examiner [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 (securemail.fdic.gov) using the following e-mail address: sfmailroom@fdic.gov.

Sincerely,

/s/ Paul Worthing

Paul Worthing
Regional Director

cc: [REDACTED]

February 9, 2022

Board of Directors

Subject: Bank Acting as a Finder for Bitcoin Service

Dear Members of the Board:

We have reviewed the recent correspondence from President [REDACTED] regarding the bank's plan to enter into an agreement with [REDACTED] and other related entities. We have also reviewed management's risk assessment and held a brief discussion with President [REDACTED] regarding this proposal.

The agreement, in short, allows bank customers to purchase or sell Bitcoin through [REDACTED]. Bitcoin can only be purchased with or redeemed for cash which would flow through the customer's account with the bank. As presented, the bank has no direct exposure to Bitcoin, and the impact to the bank's financial statements is limited to some initial expenses, periodic fee income, and the flow of cash to and from [REDACTED] as customers initiate transactions. Management planned to launch this service on February 1, 2022.

On November 23, 2021, the FDIC, the Board of Governors of the Federal Reserve System, and the Office of the Comptroller of the Currency issued the Joint Statement on Crypto-Asset Policy Sprint Initiative and Next Steps (Joint Statement). A copy of the Joint Statement is attached to this letter. According to the Joint Statement, the federal agencies recognize the need for regulatory clarity on a number of crypto-asset related issues. Throughout 2022, the federal agencies plan to provide clarity on whether certain crypto-asset activities are legally permissible, and expectations for safety and soundness, consumer protection, and compliance with existing laws and regulations.

The [REDACTED] is also evaluating the role of state financial institutions in the crypto-asset space in order to determine the appropriate regulatory balance. In that respect, [REDACTED] and the federal regulatory agencies continue to review the permissibility of this service. Depending on the outcome of that review, the bank may need to be prepared to file appropriate notice or application to [REDACTED] and/or an application under Part 362 of the FDIC Rules and Regulations to continue the service.

Until more formal regulatory clarity is available, the Board should ensure that commitments to the [REDACTED] program are flexible and allow for changes to address legal or regulatory concerns that may arise over time. Generally, we encourage the Board to closely monitor the various risks involved with this proposal, particularly third-party risks and reputational risks. At a minimum, customer disclosures and information should clearly indicate that the [REDACTED] service and Bitcoin are not FDIC

insured. Additionally, such disclosures should note that virtual currency activity is not regulated by the [REDACTED].

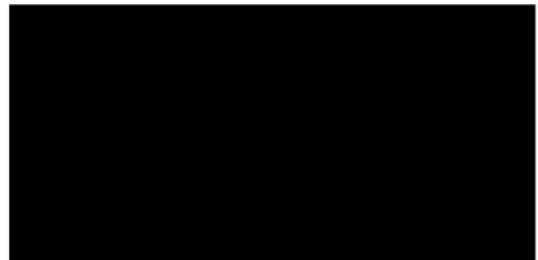
The Board should ensure periodic monitoring of the [REDACTED] relationship, including [REDACTED] financial condition. While the internal risk assessment anticipates a favorable impact on the bank's reputation from this product, volatility in Bitcoin value or operational issues of [REDACTED] could lead to customer losses and impact the bank's reputation. Information technology, information security controls, and Bank Secrecy Act functions should also be updated to address this new service. In addition, the Board should develop exit strategies since it could take time to unwind this activity if deemed necessary.

We will further review this service at the next examination. If you have any questions, please contact FDIC Case Manager [REDACTED], or [REDACTED].

[REDACTED] Any FDIC 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/>. Correspondence to the [REDACTED] should be sent to Commissioner [REDACTED] at the above address or may be emailed to [REDACTED].

Sincerely,

Cynthia Scott
Assistant Regional Director
Dallas Regional Office
Federal Deposit Insurance Corporation



November 23, 2021

Joint Statement on Crypto-Asset Policy Sprint Initiative and Next Steps

The Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation and Office of the Comptroller of the Currency (collectively, agencies) recognize that the emerging crypto-asset sector presents potential opportunities and risks for banking organizations, their customers, and the overall financial system.¹ As supervised institutions seek to engage in crypto-asset-related activities, it is important that the agencies provide coordinated and timely clarity where appropriate to promote safety and soundness, consumer protection, and compliance with applicable laws and regulations, including anti-money laundering and illicit finance statutes and rules.

To that end, the agencies recently conducted a series of interagency “policy sprints” focused on crypto-assets. Similar to a “tech sprint” model, agency staff with various backgrounds and relevant subject matter expertise conducted preliminary analysis on various issues regarding crypto-assets. This joint statement summarizes the work undertaken during the policy sprints and provides a roadmap of future planned work.

Agency staff focused on quickly advancing and building on the agencies’ combined knowledge and understanding related to banking organizations’ potential involvement in crypto-asset-related activities. The focus of the sprint work included:

- Developing a commonly understood vocabulary using consistent terms regarding the use of crypto-assets by banking organizations.
- Identifying and assessing key risks, including those related to safety and soundness, consumer protection, and compliance, and considering legal permissibility related to potential crypto-asset activities conducted by banking organizations.²
- Analyzing the applicability of existing regulations and guidance and identifying areas that may benefit from additional clarification.

To place the sprint work in context, staff reviewed and analyzed a number of crypto-asset activities in which banking organizations may be interested in engaging including:

- Crypto-asset custody.
- Facilitation of customer purchases and sales of crypto-assets.
- Loans collateralized by crypto-assets.
- Activities involving payments, including stablecoins.

¹ By “crypto-asset,” the agencies refer generally to any digital asset implemented using cryptographic techniques.

² To assist in identifying key risks, agency staff reviewed comment letters submitted in response to the FDIC’s Request for Information on Digital Assets.

- Activities that may result in the holding of crypto-assets on a banking organization's balance sheet.

Based on this preliminary and foundational staff-level work, the agencies have identified a number of areas where additional public clarity is warranted. As a result, the agencies have developed a crypto-asset roadmap that is summarized below.

Throughout 2022, the agencies plan to provide greater clarity on whether certain activities related to crypto-assets conducted by banking organizations are legally permissible, and expectations for safety and soundness, consumer protection, and compliance with existing laws and regulations related to:

- Crypto-asset safekeeping and traditional custody services.³
- Ancillary custody services.⁴
- Facilitation of customer purchases and sales of crypto-assets.
- Loans collateralized by crypto-assets.
- Issuance and distribution of stablecoins.
- Activities involving the holding of crypto-assets on balance sheet.

The agencies also will evaluate the application of bank capital and liquidity standards to crypto-assets for activities involving U.S. banking organizations and will continue to engage with the Basel Committee on Banking Supervision on its consultative process in this area.

The agencies continue to monitor developments in crypto-assets and may address other issues as the market evolves. Further, the agencies will continue to engage and collaborate with other relevant authorities, as appropriate, on issues arising from activities involving crypto-assets.

³ Traditional custody services in this context include facilitating the customer's exchange of crypto-assets and fiat currency, transaction settlement, trade execution, recordkeeping, valuation, tax services, and reporting.

⁴ Ancillary custody services could potentially include staking, facilitating crypto-asset lending, and distributed ledger technology governance services. The agencies may seek additional information on these activities through a request for information, prior to providing any further clarity on these activities.

Dallas Regional Office

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

September 15, 2023

Board of Directors
[REDACTED]

Subject: September 19, 2022 Joint Visitation

Dear Members of the Board:

On December 30, 2021, President [REDACTED] 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] and [REDACTED]. After issuance of Financial Institution Letter, FIL-16-2022, Notification of Engaging in Crypto-Related Activities, President [REDACTED] verbally notified FDIC Case Manager [REDACTED] on April 14, 2022 that the bank had launched the bitcoin facilitation activity on February 15, 2022. On May 13, 2022, the FDIC notified the bank's Board via letter that the agency was reviewing these activities and would be providing supervisory feedback, and requested that the bank refrain from expanding the service to additional customers until the review's completion.

On September 19, 2022, a FDIC joint Division of Consumer Protection (DCP) and Risk Management Supervision (RMS) examination team and [REDACTED] began a targeted visitation of the bank's relationship with [REDACTED]. While finalizing visitation findings, on July 25, 2023, Bank management notified the FDIC that [REDACTED] terminated its agreement with the Bank effective immediately via a letter dated [REDACTED]. The FDIC and [REDACTED] are providing the following high-level comments which summarize key findings from the information reviewed during the visitation, and prior to the termination of the arrangement, that can help inform the board and management on the bank's third-party risk management practices.

SCOPE OF THE REVIEW

The DCP review was led by Examiner-in-Charge (EIC) [REDACTED] and assessed the bank's Compliance Management System (CMS) controls in place surrounding the [REDACTED] service and assessed the activity for potential consumer confusion and compliance with applicable consumer protection laws and regulations, including laws related to unfair and deceptive acts or practices,

Subject: [REDACTED]

misrepresentations regarding deposit insurance, and false advertising.

The RMS review was led by RMS EIC [REDACTED] and assessed the bank's risk management framework, which included a review of Board and management oversight, due diligence and third-party risk management processes, policies, procedures, and controls in place surrounding this activity. Information Technology (IT) Examination Analyst [REDACTED] assisted. Examiner [REDACTED] participated in the review for [REDACTED]

BACKGROUND

Crypto-related activities may pose safety and soundness and consumer protection risks to the institution and its customers. The types and levels of risks are dependent on the type of activity, implementation of the activity, and controls designed to mitigate risks. Examples of risks that may be present include, but are not limited to, compliance, legal, operational, third party, and strategic. Facilitating customer crypto-asset trading alongside traditional banking products and services may also present heightened risk to the Bank's customers, such as:

- Confusion about the role of the financial institution in crypto transactions;
- Lack of understanding about the nature and risks associated with crypto-asset products;
- Inability to differentiate between nondeposit products and traditional banking products, such as deposit accounts; and
- Misunderstanding the applicability of Federal deposit insurance coverage.

SUPERVISORY FEEDBACK

The following supervisory feedback provides a high-level summary of the visitation findings:

- The risk assessment is not commensurate with the potential risk exposure posed. Management approved a Bitcoin Program risk assessment prepared by [REDACTED] with minimal edits, which lacked independence, lacked a discussion of controls in key areas, or outlined controls / mitigants that did not exist or were inaccurate. Moreover, the specific terms and conditions detailed in the contract between the bank and [REDACTED] were not adequately assessed or factored into the risk assessment.
- With regard to consumer protection risks, the risk assessment did not consider advertising risk or evidence compliance with the requirements and restrictions in FDIC Rules and Regulations Part 328 Advertisement of Membership, False Advertising, Misrepresentation of Insured Status, and Misuse of the FDIC's Name or Logo (FDIC Part 328). For example, under Part 328 the bank should consider non-deposit product advertising requirements and the risk of misrepresenting Bitcoin being insured by the FDIC, or the misuse of the FDIC's name or logo.
- Customer facing disclosures did not reflect all terms and conditions of the service and did not always present consistent, clear, and conspicuous information on the nature and risks of the service. Examples include, but are not limited to:

Subject: [REDACTED]

- The language employed to limit customer confusion between insured and non-insured products is not consistent across the application platform. While some information is presented on the nature and risks related to the service throughout the online banking and mobile applications pages, this information is inconsistently presented and the placement, format, and timing of such language is not always clear and conspicuous. Risks associated with these products generally emanate from the fact that bitcoin is: 1) not insured by the FDIC, 2) not a deposit or other obligations of the institution and is not guaranteed by the institution, and, 3) is subject to risks, including possible loss of value. For example, The “[REDACTED]” page implies information about the potential benefits of Bitcoin but do not disclose the potential risks of purchasing this nondeposit product.
- The terms and conditions or terminologies used in [REDACTED] disclosures, the online banking or mobile app screens, and bank stated system parameters did not always align. For example, the information provided by Bank management states that there is a [REDACTED] minimum purchase amount and a proposed [REDACTED] daily transaction limit. However, the terms and conditions that are provided to customers only disclose the [REDACTED] buy limit per transaction.
- Due diligence analysis was limited. There was no documented analysis of the due diligence documents that the bank obtained, as well as a lack of analysis of [REDACTED]’s financial position as part of the initial due diligence procedures as provided for by bank policy for new vendors.
- Bank policies and procedures do not fully address the activity. For example, settlement and reconciliation procedures, as well as procedures for other bank responsibilities outlined in the contract, were not developed.

These findings reflect that Board and Executive Management could be more effective to ensure appropriate risk and compliance management frameworks are in place prior to entering into complex third-party relationships and offering new products to customers.

RESOURCES

The following Financial Institution Letters (FIL), along with their references and attachments, provide useful guidance to assist the Board and senior management related to considering offering crypto-related activities:

- FIL-54-2014: Filing and Documentation Procedures for State Banks Engaging, Directly or Indirectly, in Activities or Investments that are Permissible for National Banks
- FIL-16-2022: Notification of Engaging in Crypto-Related Activities
- FIL-35-2022: Advisory to FDIC-Insured Institutions Regarding Deposit Insurance and Dealings with Crypto Companies
- FIL-01-2023: Joint Statement on Crypto-Asset Risks to Banking Organizations
- FIL-29-2023: Interagency Guidance on Third-Party Relationships: Risk Management

Subject: [REDACTED]

Also, the *February 15, 1994 Interagency Statement on Retail Sales of Nondeposit Investment Products* may be a useful resource for Bank management when considering how to ensure clear and conspicuous language is provided to customers when offering nondeposit products.

ACTION REQUESTED

In order to assess the implementation of the [REDACTED] wind down plan, please provide the FDIC Dallas Regional Office with copies of the following records by October 31, 2023: 1) summary of key dates that termination benchmarks were completed, 2) account closure data and reconciliations reports, 3) a copy of the final [REDACTED] account closure notices provided to customers directly or posted on customer accounts, 4) copies of training material or general talking points provided to bank staff on the wind down process, and 5) information on customer complaints or inquiries received during the wind down process. After the FDIC's review of the documents, the FDIC and [REDACTED] will determine if additional information is necessary to close this matter.

Further, the Board should review this Letter at their next meeting and document their review in the minutes.

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) and [REDACTED]. Please notify the FDIC and [REDACTED] immediately if you receive a subpoena or other legal process calling for the production of this Letter or a description of its content.

If you have any questions, please contact FDIC Case Manager [REDACTED] at [REDACTED] or [REDACTED], or [REDACTED] Financial Analyst [REDACTED] at [REDACTED] or [REDACTED]. FDIC 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/>. Written correspondence to the [REDACTED] should be sent to [REDACTED] at the [REDACTED] address above.

Sincerely,

Sincerely,

_____/s/ C. Scott_____
Cynthia E. Scott
Assistant Regional Director/RMS
Dallas Regional Office
Federal Deposit Insurance Corporation

[REDACTED]

Subject: [REDACTED]

Sincerely,

MATTHEW ZAMORA Digitally signed by MATTHEW ZAMORA
Date: 2023.09.15 15:07:12 -05'00'

Matthew Z. Zamora
Assistant Regional Director/DCP
Dallas Regional Office
Federal Deposit Insurance Corporation

cc: Federal Reserve Bank of Atlanta



Federal Deposit Insurance Corporation
Division of Risk Management Supervision
Division of Depositor and Consumer Protection
600 North Pearl Street, Suite 700

Dallas Regional Office
Phone (214) 754-0098
Fax (972) 761-2082

March 18, 2024

Board of Directors

Subject: Response to Notification of Engagement in Crypto-Related Activities

Dear Members of the Board:

The FDIC acknowledges the notification provided by [REDACTED], President of [REDACTED] (the Bank) dated December 30, 2021, regarding the Bank's intent to offer bitcoin services to customers through [REDACTED]. Subsequent information was provided via a letter dated January 19, 2022 and via a conference call with President [REDACTED] on January 26, 2022.

On April 7, 2022, the FDIC issued a 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. On April 14, 2022, President [REDACTED] verbally notified the FDIC that the Bank launched the bitcoin facilitation activity on February 15, 2022. On May 13, 2022, the FDIC sent a letter to the Board requesting the Bank refrain from expanding the service to additional customers while the FDIC gathers information necessary to assess the safety and soundness, consumer protection, and financial stability implications of such activities.

In a letter dated May 16, 2022, President [REDACTED] stated that the Bank would refrain from expanding the service to customers. On July 25, 2023, the Bank notified the FDIC that [REDACTED] terminated its agreement with the Bank effective immediately via a letter dated [REDACTED]. On August 1, 2023, the Bank notified the FDIC that it discontinued the service and would be giving customers an opportunity to liquidate their accounts. Subsequent information was provided by [REDACTED], the Bank's Chief Technology Officer on November 13, 2023 and February 1, 2024 demonstrating the Bank's efforts to wind down the [REDACTED] related activity.

The FDIC acknowledges the Bank's updated status related to this activity, and the May 13, 2022 FDIC letter to the Board is superseded as a result of the Bank's subsequent communications with the FDIC. With regard to the Bank's April 14, 2022 notification pursuant to FIL-16-2022, the

FDIC's review is complete. We request that the Bank notify this office if the status of this activity, or other crypto-related activity, changes in the future.

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). Under no circumstances shall the Bank or any of its directors, officers, or employees disclose or make public the contents of this letter, or any portion thereof, without the prior written consent of the FDIC.

If you have any questions, please contact Case Manager [REDACTED] or Acting Review Examiner [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 (securemail.fdic.gov) using the following e-mail address: DALMailRoom@fdic.gov.

Sincerely,

Kristie Elmquist

Kristie K. Elmquist
Regional Director

cc: [REDACTED]
Federal Reserve Bank of Kansas City



FEDERAL DEPOSIT INSURANCE CORPORATION
10 10th Street NE, Suite 900
Atlanta, Georgia 30309-3849

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

July 26, 2023

Board of Directors
[REDACTED]

Dear Board of Directors:

Enclosed for your consideration is a copy of the report of examination of [REDACTED] prepared by Corporation Examiner [REDACTED]. The examination commenced on September 26, 2022, utilizing financial information as of June 30, 2022. The examination report includes the composite and component ratings assigned under the Uniform Financial Institutions Rating System. The examination report also includes the findings of a concurrent off-site review by the FDIC Division of Depositor and Consumer Protection (DCP) to review the proposed crypto-asset related activity. The contents of this letter and the examination report, including these ratings, are subject to the confidentiality restrictions of Part 309 of the FDIC Rules and Regulations. Refer to the front cover of the report of examination for further details.

The purpose of *Matters Requiring Board Attention* is to focus the Board's attention on material matters that require timely resolution. *Matters Requiring Board Attention* are discussed on page 1 of the report of examination and require the Board's attention and corrective action. The severity of these items necessitates regulatory review prior to your next examination, and ongoing monitoring until these matters are resolved. If not resolved, these issues may adversely impact the institution. *Matters Requiring Board Attention* include:

CRYPTO-ASSET SERVICE

Management notified the FDIC and the [REDACTED] that the bank intends to "[REDACTED]" through [REDACTED], the bank's core service provider, and [REDACTED]. The risk management framework, including policies, for assessing, monitoring, and managing the [REDACTED] third party relationship needs improvement. Due to limited risk assessment and vendor due diligence undertaken by management, the Board has not ensured management properly assessed and measured the risks associated with the proposed new service. To ensure risks are appropriately identified, evaluated, and mitigated, the Board should take the following actions.

Risk Assessment - The Board should ensure that management implements a comprehensive framework and controls that provide for effective risk assessment over the [REDACTED] services. The Board should ensure that the framework is commensurate with the nature of existing and evolving safety and soundness and consumer protection risks specific to crypto-assets. The Board should ensure that management performs a comprehensive risk assessment for the [REDACTED] services. The risk assessment should appropriately identify potential enterprise-wide risks, as well as the risk of consumer harm, to ensure that such risks are sufficiently mitigated.

Vendor Due Diligence - The Board should ensure that management conducts appropriate due diligence prior to entering into any contracts. Moreover, as policy issues continue to change, and given recent volatility in crypto assets, the Board should ensure that management continues to periodically monitor the third party and any impacts on the bank and its customers.

Board Oversight - The Board should ensure appropriate policies, procedures, and controls are in place for management to effectively identify, assess, manage, and control risks. The framework should include Board oversight that ensures management has fully assessed the risk associated with the new services as they relate to the institution's overall strategic plan and risk appetite; performed appropriate due diligence to assess third parties and the relationship; performed appropriate contract reviews to understand roles and responsibilities, as well as risks and liabilities to the bank; and developed processes to perform appropriate ongoing monitoring. The Board's review and approval of the risk assessment, vendor due diligence, and contract should be documented in the Board minutes.

Compliance Management System (CMS) - The Board should ensure that sufficient controls are in place to account for and mitigate the applicable consumer compliance risks associated with facilitating customer crypto asset trading alongside traditional banking products and services. The Board should enhance its CMS to ensure the risks of consumer harm relative to the crypto asset service are appropriately identified and mitigated. Failure to implement an enhanced CMS could result in customer confusion about the nature and risks associated with crypto assets, including potential consumer harm.

The Board should implement corrective action to address *Matters Requiring Board Attention*. Your corrective action or proposed corrective action will be initially assessed through your written response to the examination report as further discussed below. Once the determination is made and communicated that the *Matters Requiring Board Attention* are resolved, the Board may move forward with offering the new crypto-asset service to the extent consistent with applicable laws and regulations.

Board of Directors

Page 3 of 4

OVERALL CONDITION

The bank's overall condition is [REDACTED]. Management and Board oversight are [REDACTED]; however, efforts are necessary to address weaknesses related to the proposed crypto asset services prior to implementation. [REDACTED]

Earnings are [REDACTED]

Asset quality is [REDACTED]

Capital is [REDACTED] Sensitivity to market risk is [REDACTED]. Liquidity and funds management practices are [REDACTED].

The Information Technology function is [REDACTED]

The bank remains [REDACTED]

Please review and discuss this letter and the examination report at your next regularly scheduled Board meeting, and record the ensuing discussion in the associated minutes. Sign the *Signatures of Directors/Trustees* page and retain a copy for your records.

Board of Directors
[REDACTED]

Page 4 of 4

Please provide this office and the [REDACTED] a written response to the examination findings. Your written response should describe the corrective action that the Board and management will implement to resolve the examination findings, with additional emphasis and support for the *Matters Requiring Board Attention*. Your written response should be received by this office within 45 days of this letter's date.

SUBSEQUENT EVENTS

On July 18, 2023, members of the bank's management team held a call with this office to inform us that the bank received notice that [REDACTED] is terminating the services agreement with the bank. At the time of this call, management was preparing to present [REDACTED]'s notification to the Board. The above findings, as well as those presented in the report of examination, are from the point-in-time examination. We realize that this recent development will alter the required corrective action for examination findings. Please provide additional details with the above requested written response, including information from the Board meeting where [REDACTED]'s notice is discussed. Following review of your written response, we will communicate any needed changes to the supervisory strategy, including potentially [REDACTED]
[REDACTED]

As a reminder, all official correspondence to the FDIC should be submitted as a PDF file to ATLMailRoom@fdic.gov using the secure message center at <https://securemail.fdic.gov>. Should you have any questions, please contact Case Manager [REDACTED] at [REDACTED] or [REDACTED].

Sincerely,

John F. Vogel
Acting Regional Director

cc: [REDACTED]

Enclosure: Report of Examination
Post Examination Survey

January 26, 2024

Via Secure Email
Board of Directors



Subject: Matters Requiring Board Attention

Dear Members of the Board:

In a letter dated August 5, 2022, Bank management notified the FDIC and the [REDACTED], in response to Financial Institution Letter 16-2022 *Notification of Engaging in Crypto-Related Activities*, of its intent to “[REDACTED]” through [REDACTED], the Bank’s core service provider, and [REDACTED]. On August 26, 2022, the FDIC sent a letter to the Board requesting information necessary to allow the FDIC to assess the safety and soundness, consumer protection, and financial stability implications of such activities; the letter requested that the Bank refrain from providing the service until we complete that review. FDIC Examiner [REDACTED] commenced an examination of [REDACTED] on September 26, 2022. The findings of the examination were transmitted on July 26, 2023. The findings included *Matters Requiring Board Attention* (MRBA) addressing the Bank’s intent to provide crypto-asset related services to its customers.

The examination noted that the Bank’s risk management framework, including policies for assessing, monitoring, and managing the [REDACTED] third-party relationship, needed improvement. Due to limited risk assessment and vendor due diligence undertaken by management, the Board of Directors (Board) had not ensured management properly assessed and measured the risks associated with the proposed new service. To communicate these concerns to the Board to ensure risks are appropriately identified, evaluated, and mitigated, the examination included detailed MRBA addressing the following areas: risk assessment, vendor due diligence, Board oversight, and the compliance management system.

On July 18, 2023, the Bank notified this office that [REDACTED] was terminating its agreement with the Bank, and that management would soon present the termination letter to the Board. On September 8, 2023, we received your response to the examination findings. Your response confirmed that the Board discussed the [REDACTED] termination letter at the July 19, 2023 meeting, and decided to “[REDACTED]” Your response also stated that all test accounts were closed and notifications were provided to all accountholders.

Board of Directors
[REDACTED]

Page 2 of 2

Based on your response to the examination findings, the MRBA are closed. The FDIC acknowledges the Bank's updated status related to this activity, and the August 26, 2022 FDIC letter to the Board is superseded as a result of the July 18, 2023 and September 8, 2023 communication to the FDIC. The FDIC requests that the Bank notify this office if the status of this activity, or other crypto-related activity, changes in the future. In addition, management and the Board should address the issues noted in the MRBA prior to any decision to enter into similar activity in the future.

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). As a reminder, all official correspondence to the FDIC should be submitted as a PDF file to ATLMailRoom@fdic.gov using the secure message center at <https://securemail.fdic.gov>. Should you have any questions, please contact Case Manager [REDACTED] at [REDACTED] or at [REDACTED].

Sincerely,

Timothy D. Rich
Regional Director

cc: [REDACTED]



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

New York Regional Office

September 1, 2022

Board of Directors
[REDACTED]

Subject: Third-Party Bitcoin Facilitation Activity – Information Request

Dear Members of the Board:

On May 19, 2022, we received [REDACTED]'s (the Bank) notification 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] 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") 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 October 31, 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.

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 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,
Jessica A Kaemingk
Regional Director

Attachment: Crypto-Assets Request List

cc: [REDACTED]

Crypto-Assets Request List

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 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, 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).
25. Volumes to include: 1) number of active accounts using this service through the Bank, 2) total number and dollar volume of buy transactions completed (since implementation), and 3) total number and dollar volume of sell transactions completed (since implementation).



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

New York Regional Office

December 1, 2022

[REDACTED] President & CEO
[REDACTED]

Subject: Follow-up to Response to Third-Party Bitcoin Facilitation Activity

Dear [REDACTED]

We have reviewed your October 31, 2022 response to our September 1, 2022 Information Request on Third-Party Bitcoin Facilitation Activity. As we discussed with Executive Vice President (EVP) / Chief Risk Management Officer [REDACTED] EVP of Digital Payments [REDACTED] and Senior Vice President / Director of Product Management & Digital [REDACTED] on November 30, 2022, responses to certain request list items were either missing or were incomplete. We would like to confirm that we have all relevant information before completing our review of the bank's planned bitcoin facilitation activity. Please refer to the attached appendix for the listing of missing or incomplete responses to request list items. To the extent that a document does not exist or is not applicable, please make a note to that effect.

This letter is confidential and may not be disclosed or made public in any manner under Part 309 of the FDIC Rules and Regulations. Please address the follow-up items within 15 days. Following our receipt of the follow-up items, we will schedule a meeting to discuss the material. If you have any questions, please contact Case Manager [REDACTED] at [REDACTED] or [REDACTED] or Review Examiner [REDACTED] at [REDACTED] or [REDACTED]

Sincerely,
Frank R. Hughes
Regional Director

cc: [REDACTED]

Appendix: Follow-up Items

Item 1: Contract

The response only contained a signed [REDACTED] Order Form. Please include a copy of the executed Financial Institution Terms & Conditions along with all documents it references, such as Operating Guidelines, [REDACTED] Account Disclosures, Customer Disclosures, Transfer Restrictions, etc.

Items 2 & 3: Overview of the contracting process and contracting analysis

No response was provided. Please provide the contract analysis performed by the bank and its outside counsel, both which were referenced in the cover letter to the response.

Item 5 or 21: Settlement

No response was provided for Item 5. Please outline the settlement process and any associated procedures and controls.

Item 6: Permissibility

The response included a permissibility analysis [REDACTED]. Please provide the bank's independent analysis, if performed.

Item 7: SEC SAB 121

Please provide a copy of your correspondence to the SEC.

Item 8: Cost-benefit

*No response was provided. [REDACTED]
[REDACTED] Please provide the bank's analysis.*

Item 10: Vendor management

*No supporting information was included with the bank's [REDACTED]
[REDACTED] Please provide all information used to prepare [REDACTED]
[REDACTED] Include financial statements and for periods after 2020 and SOC reports in addition to the report regarding the cold storage of crypto-assets.*

Items 9 & 19: Project Plan and Implementation Plan

Only the [REDACTED] was provided. Please provide the bank specific implementation plan and/or project plan, which could include, among other things, the timing and pace of roll-out, any targeted customers or demographics, marketing rollout, etc.

Item 15: 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)

Please provide any consumer disclosures that reflect all third party and bank terms and conditions for customers using the service.

Item 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.

Please provide screen shots/recordings of the platform/how the customer would access and utilize the service (we can also set up a live demo as an option).

Item 18: Strategic Plan

No response was provided. Please provide the bank's Strategic Plan.

Item 20: Board or committee minutes

Please provide minutes evidencing the Board's approval of engaging in Bitcoin facilitation, as well as any review/approval of the associated risk assessment.

Item 22: Internal training materials related to the activity

Please confirm if there are any other training materials outside of the PowerPoint provided.

Item 23: Policies and procedures that will govern the crypto-related activity, including those related to consumer compliance and complaint resolution.

Please confirm if there are any specific crypto policies or procedures or any other policies that govern the crypto-related activity.

Item 24: Internal Controls Responsibilities

Please outline bank-level control responsibilities, such as user access controls.



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

New York Regional Office

January 13, 2023

Board of Directors
[REDACTED]

Subject: Response to Notification of Engagement in Crypto-Related Activities

Dear Members of the Board:

On May 19, 2022, we received [REDACTED] (Bank's) notification regarding the Bank's intent to offer customers the ability to buy, sell, and hold crypto-assets through the Bank's digital and mobile banking platforms in conjunction with [REDACTED] in response to Financial Institution Letter (FIL), FIL-16-2022, Notification of Engaging in Crypto-Related Activities. On June 30, 2022, the FDIC sent a letter to the Board requesting that the Bank refrain from expanding this service while we considered the proposed crypto-related activity. On September 1, 2022, the FDIC sent a letter to the Board requesting information necessary to allow us to assess the safety and soundness, consumer protection, and financial stability implications of such activities; CEO and President [REDACTED] provided a response to this letter on October 31, 2022. On December 1, 2022, the FDIC sent a letter asking for confirmation that all relevant information regarding the Bank's planned Bitcoin facilitation activity had been provided.

In his December 6, 2022 letter, CEO and President [REDACTED] advised the FDIC that the Bank has indefinitely suspended its plan to engage in this third-party Bitcoin facilitation activity. The FDIC acknowledges the Bank's updated status related to this activity, and the June 30, 2022 letter FDIC letter to the Board and subsequent letters requesting information have been superseded as a result of the Bank's December 6, 2022 communication to the FDIC. We request that the Bank notify this office if the status of this activity, or other crypto-related activity, changes in the future.

Written correspondence should be addressed to my attention in the New York 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: NYMailRoom@fdic.gov. Information about how to use secure email and FAQs about the service can be found at <https://www.fdic.gov/secureemail/>.

January 13, 2023

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 Case Manager [REDACTED] or [REDACTED] or Review Examiner [REDACTED] or [REDACTED]

Sincerely,
Frank R. Hughes
Regional Director

cc:

[REDACTED]



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

March 11, 2022

Board of Directors

[REDACTED]

Via secure email

Subject: Activity Related to [REDACTED]

Members of the Board:

On [REDACTED] announced its membership in the [REDACTED]. In response to launching the [REDACTED], [REDACTED] General Counsel [REDACTED] participated in a February 22, 2022 conference call with management from the FDIC, the Board of Governors of the Federal Reserve System, and the Office of Comptroller of the Currency, along with leadership of the other [REDACTED]. From this meeting, Federal regulators understand the [REDACTED] is currently drafting operating rules to govern transactions on the [REDACTED] blockchain network.

Please be advised that the FDIC has a number of questions and concerns based on the information provided to date. We expect you to address those (in advance of implementation) to ensure the bank is operating in a safe and sound manner.¹

To assist the FDIC and other Federal regulators in the [REDACTED] review process, we will be submitting 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 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/>.

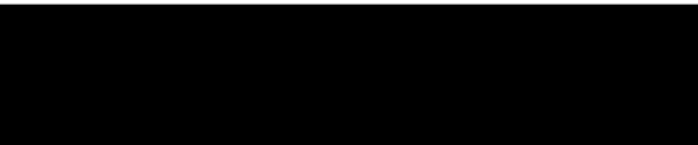
Sincerely,

Kristie K. Elmquist
Regional Director

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

November 16, 2022

Board of Directors



Via Secure Email

**Subject: June 9, 2022 Response to [REDACTED] Questions and
Node and [REDACTED] Activity Permissibility**

Dear Members of the Board:

On June 9, 2022, the FDIC received the bank's response to our April 25, 2022 request for information (Correspondence). We are reviewing the Correspondence and may request additional information during this review. Please note, while we acknowledge receipt of the bank's response, such acknowledgment does not constitute non-objection.

During our review of the bank's July board minutes, it came to our attention that [REDACTED] was granted \$500,000 in Hash, a token that will be used for transactions, staking, and grants on the [REDACTED] Blockchain. The [REDACTED] Blockchain is the platform the [REDACTED] plans to use for transfers. Please provide additional details related to the [REDACTED] grant and information regarding how the bank has recorded this asset on the bank's books.

Additionally, we understand that the bank may operate a [REDACTED] Sentry Node (Sentry Node) to facilitate certain [REDACTED] activities, should the proposed [REDACTED] payment system be launched. The Sentry Node would be managed and supported by [REDACTED] and would be used to read and store a copy of the [REDACTED] ledger for business continuity purposes, for operational monitoring and reporting, for second and third line verification purposes (*i.e.*, to preserve and cross-validate applicable on-chain transaction information in the event of any service disruption), and as needed or desired for auditing, monitoring, or other reporting purposes.

In response to the FDIC's question regarding whether the bank's membership in the [REDACTED] is permissible under section 24 of the Federal Deposit Insurance Act and part 362 of the FDIC Rules and Regulations (Part 362),¹ the Correspondence referred us to section [REDACTED]. Although this section of the Legal Manual discusses the permissibility of the bank's ownership of a non-controlling interest in the [REDACTED] it does not discuss the permissibility of holding [REDACTED] tokens. It does not appear that the Office of the Comptroller of the Currency has specifically addressed the permissibility this

¹ 12 U.S.C. § 1831a; 12 C.F.R. part 362.

activity for a national bank. As a result, the bank should file an application in accordance with Part 362 requesting the FDIC's consent to hold the [REDACTED] on the bank's balance sheet and obtain the prior consent of the FDIC under Part 362 before acquiring any additional [REDACTED]

In addition, the [REDACTED] does not discuss the permissibility of operating as a Sentry Node. Again, it does not appear that the Office of the Comptroller of the Currency has specifically addressed the permissibility of this activity for a national bank. As a result, with regard to the proposed activity of operating a Sentry Node, the bank is requested to either provide the FDIC with the documentation contemplated by FDIC FIL-54-2014, *Filing and Documentation Procedures for State Banks Engaging, Directly or Indirectly, in Activities or Investments That Are Permissible for National Banks*, dated November 19, 2014, for our review (in the event the OCC has specifically addressed the permissibility of this activity for a national bank) or seek and receive the prior consent of the FDIC under Part 362 for this activity. The required contents of a Part 362 filing are outlined under Section 303.121(b) of the FDIC Rules and Regulations.² In addition, each submission should include a satisfactory signed legal opinion regarding the permissibility of the proposed activity for the bank.

As noted above, we continue to review and assess the bank's responses and information provided. As part of that process, we may have additional questions and follow-up correspondence and direction associated with the permissibility of the activities. We expect that the bank will satisfactorily address our questions to ensure the bank would be engaging in the contemplated activities in a safe and sound manner.³

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/>.

This letter and its contents are confidential and intended only for the bank's internal use. The disclosure of such confidential supervisory information is governed by Part 309 of the FDIC Rules and Regulations.⁴

If you have any questions, please contact Case Manager [REDACTED]

Sincerely,

/s/ K Elmquist

Kristie Elmquist
Regional Director

² 12 CFR § 303.121(b).

³ See, e.g., Section 39 of the Federal Deposit Insurance Act and Part 364 of the FDIC Rules and Regulations.

⁴ 12 CFR part 309.





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

SENT VIA SECURED ELECTRONIC MAIL

September 22, 2023

Board of Directors



Via Secure Email

Subject: [REDACTED] Changes and Updated Information Request

Dear Members of the Board:

On August 31, 2023 [REDACTED] (Bank) Chief Innovation Officer (CIO) [REDACTED] and [REDACTED] Chief Executive Officer (CEO) [REDACTED] met with the FDIC and outlined substantial proposed changes to the [REDACTED] framework. Those changes included the planned selection of a new distributed ledger technology vendor in order to move to a private, permissioned blockchain with centralized validation and without a native token, gas fees, or connectivity with non-bank ecosystems. CIO [REDACTED] and [REDACTED] CEO [REDACTED] discussed potential use cases and plans to present a proposal of a limited set of tests after selection of a new distributed ledger technology vendor.

In light of the substantial proposed changes, please provide an updated notification (to the notification provided on June 9, 2022, in response to Financial Institution Letter 16-2022), including a detailed description of the proposed solution and activity, as well as responses to the previously requested information and documents that reflect these changes. In addition, please also provide an updated project timeline, project plan, and testing proposal. The FDIC will await the Bank's submission. Pending receipt of updated information, the FDIC will not provide follow-up requests or supervisory feedback related to the previous notification.

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/>.

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]
[REDACTED] or Review Examiner [REDACTED]

Bank Name: [REDACTED]
Subject: [REDACTED]

Page 2

Sincerely,

Kristie K. Elmquist
Regional Director

cc: [REDACTED]



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

December 2, 2024

Board of Directors

b4,b8

Re: Crypto-Related Activity Targeted Review

Members of the Board:

The FDIC's Division of Depositor and Consumer Protection (DCP) and Division of Risk Management Supervision (RMS) conducted a joint Targeted Review of 11 third-party programs with crypto-related products and services. Specifically, examiners identified 10 **b4,b8** programs (8 of which were active at the time of the review) offered in conjunction with or alongside crypto-related products and services and 1 active **b4,b8** program where **b4,b8** supports a high-yield savings account offered alongside crypto-related products and services. Each of the identified crypto-related activities was new to **b4,b8** since 2018 and resulted from both new third-party relationships and changes to existing third-party programs to include crypto features.

SCOPE OF TARGETED REVIEW

RMS Supervisory Examiner (SE) **b8** and DCP Consumer Compliance Technology Specialist (CCTS) **b8** conducted a joint review of **b4,b8** crypto-related activity in conjunction with the 2022 DCP and 2023 RMS supervisory activities. The scope of review included **b4,b8** processes for determining whether to engage in crypto-related activity; risk assessment and due diligence processes prior to engaging with crypto-related third parties or with third parties that offer crypto-related features associated with bank issued products; ongoing risk management practices; and review of specific program materials, including available consumer-facing presentations, marketing, and disclosures related to nine active crypto-related third-party relationships. The review also focused on certain representations, either by affirmative statement, suggestion, or implication, of FDIC insurance applicability in consumer-facing materials by third-party entities that have a direct or indirect business relationship with **b4,b8** for the placement of deposits and into which the third-party entities' and consumers' deposits may be placed. In addition, examiners conducted abbreviated reviews of the two inactive programs based on the as-developed status and available materials.

The following table details the third-party relationship programs reviewed, **b4,b8**, product, crypto-asset feature(s), and status of each program at the time of review. Crypto-asset

features include the ability to spend crypto-assets by conversion to U.S. dollars (USD), earn crypto-asset based rewards for card transaction activity, and engage in crypto-asset trading.

Program Name	b4,b8	b4,b8 Product	Crypto-asset Feature	Status as of Review
b4,b8				

During the review, examiners participated in live demonstrations of the user mobile application experience for the [b4,b8] and [b4,b8] programs with bank personnel and representatives of the respective programs. Examiners selected these programs based on several factors, including the presence of affirmative, suggested, or implied claims of FDIC insurance; identified concerns regarding the lack of clarity between FDIC insured and non-insured products and services; complaint activity; and nature of crypto-related features.

¹ All crypto-assets are converted to USD prior to funding [b4,b8] issued prepaid debit cards.

² On February 13, 2023 [b4,b8] announced that it is discontinuing its consumer-facing app. [b4,b8] were deactivated [b4,b8]

³ As of [b4,b8] crypto-asset [b4,b8] and [b4,b8] features have been added to [b4,b8]

⁴ On January 31, 2023 [b4,b8] alerted the FDIC of its intent to wind down the relationship with [b4,b8] with the following timeline: last day of card issuance on [b4,b8] and [b4,b8]

⁵ [b4,b8] 12-31-2023 List of Card Programs reports the

⁶ [b4,b8] 12-31-2023 List of Card Programs reports the requested by January 31, 2024.

⁷ On February 6, 2023, examiners learned that [b4,b8] informed [b4,b8] of its intent to terminate the contract on [b4,b8]

⁸ Status may have recently changed given that on [b4,b8] reported that it will stop providing crypto trading services in the United States.

SUMMARY OF FINDINGS

Prior to the FDIC's Targeted Review, bank management did not believe that [b4,b8] conducted or engaged with crypto-related activities, because [b4,b8] does not hold or transact in crypto-assets. As such, the Board and management did not identify or evaluate the risks associated with these third-party activities to determine overall risk exposure.

While the bank does not hold or transact crypto-assets, bank-issued products market and provide crypto-asset rewards or the ability to spend crypto-assets. As a result, it is relevant for the bank to consider and assess how crypto-related risks may impact the bank. For example, key risks associated with crypto-assets may include the following: risks of fraud and scams, legal uncertainties related to ownership rights, volatility in crypto-asset pricing, contagion risk within the sector, lack of maturity and robustness of risk management and governance practices in the sector, and operational risks related to crypto-custody (to the extent crypto rewards or crypto available to spend is custodied). These risks may be relevant for the bank to consider as it may impact customer abilities to obtain the crypto rewards or spend crypto, as marketed to bank customers. In addition, such activity may pose significant money laundering (ML) and terrorist financing (TF) risks given reported instances of crypto-assets being used for illicit activities.

Board and Management Oversight

Overall, Board and management did not provide sufficient oversight of programs with crypto-related activities. In addition, there was no review to ensure individuals involved had sufficient knowledge of crypto-related activities, which is of increased concern given the potential risks associated with the crypto-asset features of the bank-issued cards (as outlined in the Summary section above). As a result, management did not recognize the elevated consumer compliance, sanctions, ML/TF, and other illicit financial activity risks.

The bank also lacks due diligence analysis to support that the parties that directly perform the crypto-related activity tied to the bank's product can be performed as expected. For example, several programs market to consumers earning crypto rewards on a [b4,b8]. The due diligence analysis does not reflect that the third parties have the financial capacity or operational capacity to ensure obligations to bank cardholders are met. For example, in the [b4,b8]

b4,b8

Due Diligence and Risk Assessment

Management did not properly enhance its due diligence or risk assessment processes to ensure the risks of these programs are identified, assessed, and controlled prior to engaging in these activities. The resulting lack of controls or appropriate risk management procedures prevents management and the Board from providing ongoing oversight commensurate with the risks. Similarly, while the bank's existing compliance and legal reviews for new programs include relevant documents and regulatory frameworks (e.g., Unfair, Deceptive, and Abusive Acts and Practices), due diligence and risk assessment documentation do not evidence-specific

consideration of crypto-related components related to compliance and legal risks. For example, the [b4,b8] program allows customers to spend funds on a bank-issued card that were converted to USDs from crypto-assets; however, the bank's anti-money laundering and countering the financing of terrorism (AML/CFT) risk rating was low because of the card's limited funding methods, and did not acknowledge potential AML/CFT risks as the source of funds for card spending are directly crypto-assets.

In addition, [b4,b8] card programs with spend from crypto-related funding sources are dependent on [b4,b8] and service providers to those [b4,b8] for essential functions relating to AML/CFT compliance. Due diligence and ongoing oversight of the [b4,b8] policies and procedures to monitor and assess the crypto-asset sources of funds is limited primarily to identification of the crypto-asset custodian, the exchange platform, and the crypto-asset transaction monitoring service provider. Given the inherent sanctions, ML/TF, and other illicit financial activity risks associated with crypto-assets, the risk assessment and initial and periodic due diligence of such programs warrants further development to consider the adequacy of transaction monitoring outsourced to [b4,b8] and to ensure the card construct and other ML/TF controls can be appropriately tailored by the bank.

Noncompliance with the Federal Deposit Insurance Act, 12 U.S.C Section 18(a)(4) (Section 18(a)(4)) and its implementing regulation, 12 C.F.R Part 328 (Part 328) by the Bank's Third Parties

Examiner review of advertisements for the subject third-party relationships revealed several concerns regarding FDIC deposit insurance representations and Section 18(a)(4)/Part 328 compliance. Specifically, examiners found that advertisements to consumers by [b4,b8] and [b4,b8] contained implications that uninsured crypto-related products were insured by using FDIC-associated terms without clear, conspicuous, and prominent disclaimers that the uninsured financial products are not FDIC-insured or guaranteed. In addition, [b4,b8] made statements regarding FDIC deposit insurance that omitted material information that, in the absence of such information, could result in a reasonable consumer being unable to understand the extent or manner of deposit insurance provided. Lastly, unrelated to the crypto-related activity review, the FDIC found additional Part 328 compliance concerns regarding certain representations about deposit insurance made by [b4,b8] an entity with which [b4,b8] has a relationship.

Based on the FDIC's review, the FDIC has reason to believe that these third-party entities may have either misused an FDIC-Associated Image or FDIC-Associated Term or otherwise violated Section 328.102(a), and/or may have made false or misleading representation regarding deposit insurance, in violation of Section 328.102(b). As such, the FDIC issued a confidential advisory letter to each of these third-party entities, pursuant to the FDIC's authority under Section 18(a)(4), and its implementing regulation (Part 328), to inform them of the FDIC's findings of potential violations and concerns. The advisory letters requested corrective actions within 15 days of the date of issuance. The entities and dates of the confidential advisory letters are as follows:

•
•
•
•
•
•
b4,b8

The letters are attached. The advisory letters and any communications with the recipient of the advisory letter are considered confidential supervisory information (CSI) with respect to the FDIC's Section 18(a)(4) authority over **b4,b8** and are exempt from public disclosure under Exemption 8 of the Freedom of Information Act. In response to the advisory letters, the third parties implemented corrective action. However, we are sharing this CSI pursuant to the discretionary disclosure provisions of Part 309 of the FDIC Rules and Regulations (Part 309)⁹ to assist the Board and management in properly overseeing the subject third-party relationships and implementing an effective compliance management system. Please note that the advisory letters were issued pursuant to Section 328.106 based on the FDIC's preliminary findings of potential violations of Section 18(a)(4) and Part 328 by these entities.

Both the **b4,b8** programs are subject to the bank's **b4,b8** Agreement with **b4,b8** Agreement). The **b4,b8** Agreement states that **b4,b8** has primary responsibility for each Program's compliance with applicable law and that **b4,b8** shall have full control and continued oversight over the Programs. Similarly, the **b4,b8** program is subject to the bank's Bank Savings Account Services Agreement with **b4,b8** Agreement). The **b4,b8** Agreement also states that **b4,b8** has the right to control, oversee, and audit the Program to ensure that **b4,b8** performance complies with applicable law. Further, the **b4,b8** Card Program Agreement states that **b4,b8** provides services described in the Agreement as an agent and representative of **b4,b8** who has primary responsibility for each Program's compliance with "Applicable Law and the Program Documents." The bank's lack of or inadequate review of advertisements of all third-party programs, as well as a lack of ongoing oversight of advertisements to ensure compliance with applicable laws and regulation, allowed these third parties to make misrepresentations, affirmatively or by implication, in apparent violations of Section 18(a)(4) and Part 328. Additionally, the bank's lack of awareness that these third parties are/were engaged in crypto-related activities further highlights the bank's compliance management system weaknesses as well as the material deficiencies in the bank's third-party oversight.

MEETING WITH MANAGEMENT

SE **b8** and CCTS **b8** met with bank management on November 21, 2024, to discuss findings of the crypto-related activities joint review. Also present in-person on behalf of the FDIC were Assistant Regional Director (ARD) Nicole Orlando and Field Supervisor **b8**. **b8** ARDs Michelle Cahill and Michael Selander, Senior Review Examiner **b8**

⁹ See 12 C.F.R. § 309.6(b).

Board of Directors
December 2, 2024

Page 6

Case Manager [b8] Senior Compliance Examiner [b8] and [b8] Regional Supervisor [b8] joined telephonically. Chief Executive Officer [b4,b8] [b4,b8] [b4,b8], and [b4,b8] [b4,b8] were present on behalf of the bank. SE [b8] reminded the bank that the review findings were both preliminary and subject to the confidentiality restrictions of Part 309 of the FDIC's Rules and Regulations.

SE [b8] and CCTS [b8] discussed the scope of the review. CRO [b4,b8] asked to clarify the scope of review for third-party activities and expectations of the bank. SE [b8] and CCTS [b8] clarified that the scope of review and expectations were consistent with existing guidance for third-party management.

SE [b8] then discussed the findings of the review, which included weaknesses in oversight. SE [b8] acknowledged that while the bank does not directly engage with or offer crypto-related products or services, bank partnerships with third parties engaged in crypto-related activities does present risks to the bank. CRO [b4,b8] discussed changes to the bank's practices and stated crypto-related risks would be addressed through existing practices.

CCTS [b8] identified that risk assessment weaknesses noted by SE [b8] were consistent as it related to consumer compliance risks. CCTS [b8] discussed the unique risk of consumer confusion between FDIC-insured deposit products and uninsured financial products. CRO [b4,b8] asked for clarification of supervisory expectations for risk assessment practices and the need to include crypto assets as a specific risk category. CCTS [b8] stated that there is no specific expectation to add a category to the bank's risk assessment structure, but the bank should clearly identify and address these risks where present. CCTS [b8] discussed several instances of potential non-compliance with the Federal Deposit Insurance Act 12 U.S.C. Section 18(a)(4) and its implementing regulation, 12 C.F.R. Part 328 by the bank's third parties. CCTS [b8] noted that advisory letters have been sent to the third parties and will be provided to the bank alongside the supervisory letter concluding this review. Finally, CCTS [b8] briefly discussed changes to Part 328 effective in 2025.

Following the presentation of review findings, CRO [b4,b8] CEO [b4,b8], SE [b8] and CCTS [b8] discussed general third-party risk management practices and how crypto-related third parties differ from other third-party programs. CEO [b4,b8] and CRO [b4,b8] briefly discussed responding to the supervisory letter and confirmed logistics of receiving and responding to the letter. ARD Cahill confirmed that the bank should submit the response to the supervisory letter electronically like to other examination activities.

The issues identified through this review align with those identified and conveyed to the bank through the 2022 DCP and 2023 RMS examination activities. The reports resulting from these supervisory activities included supervisory recommendations and proposed enforcement actions to address the identified concerns. As a result, no new supervisory recommendations are put forth within this letter. However, the Board and management should review the findings of this Targeted Review at an official meeting of the Board and document this review within the minutes.

Board of Directors
December 2, 2024

Page 7

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). Under no circumstances shall the Bank or any of its directors, officers, or employees disclose or make public the contents of this letter, or any portion thereof, without the prior written consent of the FDIC. Please notify us immediately if you receive a subpoena or other legal process calling for the production of this letter or a description of its content, or any of the CSI disclosed to you.

As a reminder, written correspondence can be sent to this office as a PDF document through the FDIC's Secure Email portal (securemail.fdic.gov) using the following e-mail address: CHIMailRoom@FDIC.gov. Information about how to use secure email and FAQs about the service can be found at fdic.gov/secureemail. If there are any questions about the Secure Email process or the Targeted Review findings, please contact RMS Case Manager [b8] at [b8] or DCP Senior Review Examiner [b8] at [b8].

Sincerely,

Gregory P. Bottone
Regional Director

Enclosures

cc: [b8], Federal Reserve Bank of Cleveland

Via Overnight Mail

August 17, 2023

b4,b8

RE: Potential Violations of Section 18(a)(4) of the Federal Deposit Insurance Act

Dear **b4,b8**

I am an attorney in the Legal Division of the Federal Deposit Insurance Corporation (FDIC). As part of its responsibilities, the FDIC reviews statements that make representations about deposit insurance.

Provisions in the Federal Deposit Insurance Act, 12 U.S.C. § 1828(a)(4) (Section 1828(a)(4)), and its implementing regulation, 12 C.F.R. Part 328 (Part 328), prohibit any person from representing that an uninsured financial product is insured or from knowingly misrepresenting the extent or manner in which a deposit is FDIC-insured under the Act, whether by making affirmative statements or by omitting material information. Under Part 328, no person may represent or imply that any uninsured financial product is insured or guaranteed by the FDIC as part of an advertisement, solicitation, or other publication or dissemination. See 12 C.F.R. 328.102(a)(2). Further, pursuant to Part 328, a statement regarding deposit insurance would be deemed to make material representations if the representation could result in a reasonable consumer being unable to understand the extent or manner of deposit insurance provided. See 12 C.F.R. 328.102(b)(1), (b)(3), and (b)(5). The FDIC has the authority to enforce this prohibition against any person or entity.

Certain statements by **b4,b8** which appeared on the website, **b4,b8** and may also appear in other media, have come to the attention of the FDIC. For example, **b4,b8** advertises that **b4,b8** but does not state in the advertisement that only certain **b4,b8** products are eligible for FDIC deposit insurance. This advertisement may mislead a reasonable consumer to believe that cryptocurrency or other investment products and services offered by **b4,b8** are FDIC-insured. Furthermore, within that advertisement, **b4,b8** does not properly identify the insured depository institutions (IDIs) where customers' funds may be placed, which constitutes a material omission. Additionally, on the Help Page in response to the question **b4,b8** **b4,b8** notes that funds held by **b4,b8** are FDIC-insured, but again does not specify the eligible **b4,b8** product or service. This representation also does not provide any information concerning funds held at **b4,b8** and such information is necessary for a consumer to understand the extent and manner of deposit insurance provided.

Based on the foregoing, we request that you revise your website and any other consumer-facing

materials to address all misrepresentations regarding FDIC deposit insurance, including but not limited to apps, chatbots, and social media posts.

To the extent that [b4,b8] representations relate to pass-through insurance arising from the placement of consumer deposits into accounts at IDIs, please amend such statements to: (1) clearly and accurately identify the nature of such insurance, and (2) identify the IDI(s) with which [b4,b8] has a direct or indirect relationship for the placement of deposits and into which consumers' funds may be deposited. A recently proposed rule by the FDIC would clarify that it is a material omission to fail to clearly and conspicuously disclose that certain conditions must be satisfied for pass-through deposit insurance coverage to apply. For additional information, please see <https://www.federalregister.gov/documents/2022/12/21/2022-27349/fdic-official-sign-and-advertising-requirements-false-advertising-misrepresentation-of-insured>.

Please provide a copy of the revised statements, as well as a commitment to refrain from making similar misrepresentations in the future, to my attention at the email address below no later than 15 days from the date of this letter. Alternatively, if you believe that the representations made are accurate, please provide information and documentation supporting their accuracy to me via email no later than 15 days from the date of this letter.

Failure to promptly remedy the misrepresentations may result in the FDIC taking appropriate action. Enforcement tools available to the FDIC include the authority to issue cease and desist orders and assess civil money penalties. See 12 U.S.C. § 1828(a)(4)(E) and 12 C.F.R. § 328.104-107.

This letter constitutes an advisory letter within the meaning of 12 C.F.R. § 328.106. Accordingly, pursuant to 12 C.F.R. § 328.102(b)(6), future false or misleading deposit insurance representations may be deemed to have been knowingly made.

Should you have any questions about the contents of this letter, please contact me at [b6] or mstrier@fdic.gov.

Sincerely,

[b6]

Mara A. Strier
Counsel
Administrative Enforcement and Investigation Unit
mstrier@fdic.gov

Legal Division

550 17th Street NW, Washington, D.C. 20429-9990

Via Overnight Mail and Email

October 3, 2023

b4,b8

RE: Potential Violations of Section 18(a)(4) of the Federal Deposit Insurance Act

Dear **b4,b8**

I am an attorney in the Legal Division of the Federal Deposit Insurance Corporation (FDIC). As part of its responsibilities, the FDIC reviews statements that make representations about deposit insurance.

Provisions in the Federal Deposit Insurance Act (FDI Act), 12 U.S.C. § 1828(a)(4), and its implementing regulation, 12 C.F.R. Part 328 (Part 328), prohibit any person from representing that an uninsured financial product is insured or from knowingly misrepresenting the extent and manner in which a deposit liability or obligation is FDIC-insured under the FDI Act, whether by making affirmative statements or by omitting material information. Under Part 328, no person may represent or imply that any uninsured financial product is insured or guaranteed by the FDIC as part of an advertisement, solicitation, or other publication or dissemination. See 12 C.F.R. § 328.102(a)(2). This prohibition applies, but is not limited to, an advertisement for any uninsured financial product that includes one or more FDIC-associated terms, such as “member FDIC,” without a clear, conspicuous, and prominent disclaimer that the products being offered are not FDIC insured or guaranteed. See 12 C.F.R. § 328.101 and 328.102(a)(3)(i). The FDIC has the authority to enforce this prohibition against any person or entity. Enforcement tools available to the FDIC include the authority to issue cease and desist orders and assess civil money penalties. See 12 U.S.C. § 1828(a)(4)(E) and 12 C.F.R. § 328.104-107.

Certain statements by **b4,b8** which appeared on the website **b4,b8** and may also have appeared in other media, came to the attention of the FDIC. The misrepresentations related to marketing for **b4,b8** debit card, which stated it was **b4,b8** **b4,b8** **b4,b8** and that consumers could **b4,b8** or that the debit card is **b4,b8**. These advertisements did not include clear, conspicuous, and prominent disclaimers that crypto and digital assets are not FDIC insured or guaranteed. The statements could lead or may have led a reasonable consumer to

b4,b8

believe that crypto or digital assets in the [b4,b8] wallet were FDIC-insured.

We note that, as of [b4,b8] appears to have discontinued the debit card in question and revised its website by removing the above-cited misrepresentations and deleting the references to the FDIC and deposit insurance. To the extent [b4,b8] made similar misrepresentations on its website (including any pop-ups, hyperlinks, or chatbots), any social media platform, mobile apps, online outlets, and any other form of marketing, advertising or other public-facing materials, we ask that you remove them as well. Additionally, we ask that you refrain from any future violation(s) of the FDI Act and Part 328.

This letter constitutes an advisory letter within the meaning of 12 C.F.R. § 328.106. Accordingly, pursuant to 12 C.F.R. § 328.102(b)(6), future false or misleading deposit insurance representations may be deemed to have been knowingly made.

Should you have any questions about the contents of this letter, please contact me at or branney@fdic.gov.

b6

Sincerely,

**BOWEN
RANNEY**

Digitally signed by BOWEN
RANNEY
Date: 2023.10.03 09:53:56
-04'00'

Bowen W. Ranney
Counsel
Administrative Enforcement and Investigation Unit
branney@fdic.gov

Legal Division

550 17th Street NW, Washington, D.C. 20429-9990

www.fdic.gov
page 2

REL0000042136

Via Overnight Mail & Email

May 22, 2024

b4,b8

RE: Potential Violations of Section 18(a)(4) of the Federal Deposit Insurance Act

b4,b8

I am an attorney in the Legal Division of the Federal Deposit Insurance Corporation (FDIC). As part of its responsibilities, the FDIC reviews statements that make representations about deposit insurance.

Provisions in the Federal Deposit Insurance Act (FDI Act), 12 U.S.C. § 1828(a)(4) (Section 18(a)(4)), and its implementing regulation, 12 C.F.R. Part 328, Subpart B (Part 328), prohibit any person from knowingly misrepresenting the extent or manner in which a deposit or obligation is FDIC-insured under the FDI Act, whether by making affirmative statements or by omitting material information. Further, pursuant to Part 328, a statement regarding deposit insurance would be deemed to omit material information if the absence of such information could result in a reasonable consumer being unable to understand the extent or manner of deposit insurance provided. See 12 C.F.R. §§ 328.102(a) and 328.102(b)(1), (b)(3)(ii), and (b)(5). For example, under Part 328, it is a material omission for a non-insured entity that advertises deposit insurance to fail to identify the insured depository institutions (IDIs) with which the representing party has a direct or indirect business relationship for the placement of deposits and into which the consumer's deposits may be placed. See 12 C.F.R. § 328.102(b)(5). The FDIC has the authority to enforce this prohibition against any person or entity.

Certain statements by **b4,b8** which appear on the website **b4,b8** and which may also appear in other media have come to the attention of the FDIC. For example, **b4,b8** advertises **b4,b8** but does not identify in or near the statement the IDI where consumers' funds may be placed. While **b4,b8** states that banking services are provided by **b4,b8** its Terms of Service note, **b4,b8** **b4,b8** statements about deposit insurance coverage, which fail to identify the IDI(s) in which deposits are placed, may mislead a reasonable consumer to believe that **b4,b8** itself is an IDI that provides FDIC deposit insurance directly to consumers. **b4,b8** also fails to state it is not an IDI anywhere on its website except within one article on its Help webpage, which may further mislead a reasonable consumer to believe **b4,b8** itself is an IDI that provides deposit insurance. The name of the IDI is necessary for a consumer to understand the extent or manner of deposit insurance provided, and the failure to identify the IDI is deemed to be a material omission under Part 328. Additionally, **b4,b8** states in an identical banner at the bottom of each of its webpages that it **b4,b8** **b4,b8** but this statement is not linked in any way to its deposit

insurance representations and is not in a proximate location to those representations. Lastly, the statements identified above do not include a disclosure that FDIC insurance coverage is subject to the pass-through insurance requirements, which may cause a reasonable consumer to be misled that an account with [b4,b8] is directly insured and that the coverage is not subject to any qualifications.

Based on the foregoing, we request that you revise your websites and any other consumer-facing materials to address all misrepresentations regarding FDIC deposit insurance, including but not limited to apps, chatbots, and social media posts. To the extent that your representations relate to pass-through insurance arising from the placement of consumer deposits into accounts at IDIs, you shall amend such statements to: (1) clearly and accurately identify the nature of such insurance, and (2) identify the IDI(s) with which [b4,b8] has a direct or indirect relationship for the placement of deposits and into which consumers' funds may be deposited.

Please provide a copy of the revised statements, as well as a commitment to refrain from making similar misrepresentations in the future, to my attention at the email address below no later than 15 calendar days from the date of this letter. Alternatively, if you believe that the representations made by [b4,b8] are accurate, please provide information and documentation supporting their accuracy to me via email no later than 15 calendar days from the date of this letter.

Please note that a final rule recently adopted by the FDIC and effective April 1, 2024, with a compliance date of January 1, 2025, provides further clarification when specific statements or omissions constitute a misrepresentation under section 18(a)(4) and Part 328. The final rule includes certain new requirements for non-bank entities advertising deposit insurance. As discussed in the preamble to the final rule, any use of the FDIC's official advertising statement or FDIC associated terms or images in a manner that inaccurately states or implies that a person other than an IDI is insured by the FDIC is a misrepresentation unless, for example, the advertising statement is next to the name of one or more IDIs. See 12 C.F.R. § 328.102(b)(1)(iv). In addition, the final rule clarifies that a non-bank entity, when it purports to deposit customer funds at IDIs, must *clearly and conspicuously* disclose that: (1) it is a non-bank that is not itself an FDIC-insured institution; and (2) FDIC deposit insurance coverage only protects against the failure of an FDIC-insured depository institution. See 12 C.F.R. § 328.102(b)(5)(ii). The recent final rule also clarifies that a non-bank entity must *clearly and conspicuously* identify the IDI into which consumers' funds may be placed. See 12 C.F.R. § 328.102(b)(5)(i). In addition, the final rule provides that a statement regarding pass-through deposit insurance constitutes an omission if it fails to *clearly and conspicuously* disclose that certain conditions must be met for pass-through coverage to apply. See 12 C.F.R. § 328.102(b)(5)(iv). For additional information, please see <https://www.fdic.gov/news/press-releases/2023/pr23110.html> and FDIC Official Signs and Advertising Requirements, False Advertising, Misrepresentation of Insured Status, and Misuse of the FDIC's Name or Logo, Final Rule, 89 FR 3504 (January 18, 2024).

Failure to promptly remedy the misrepresentations may result in the FDIC taking appropriate action. Enforcement tools available to the FDIC include the authority to issue cease and desist orders and assess civil money penalties. See 12 U.S.C. § 1828(a)(4)(E) and 12 C.F.R. §§ 328.104-107. This letter

Legal Division

550 17th Street NW, Washington, D.C. 20429-9990



constitutes an advisory letter within the meaning of 12 C.F.R. § 328.106. Accordingly, pursuant to 12 C.F.R. § 328.102(b)(6), future false or misleading deposit insurance representations may be deemed to have been knowingly made.

Should you have any questions about the contents of this letter, please contact me at or aborzaro@fdic.gov.

b6

Sincerely,

ANTHONY
BORZARO

Digitally signed by
ANTHONY BORZARO
Date: 2024.05.22
12:42:35 -04'00'

Anthony J. Borzaro III
Senior Attorney
Administrative Enforcement and Investigation Unit
aborzaro@fdic.gov

cc:

b4,b8

Legal Division

550 17th Street NW, Washington, D.C. 20429-9990

www.fdic.gov
page 3

REL0000042136

Via Overnight Mail and Email

August 17, 2023

b4,b8

RE: Potential Violations of Section 18(a)(4) of the Federal Deposit Insurance Act

Dear **b4,b8**

I am an attorney in the Legal Division of the Federal Deposit Insurance Corporation (FDIC). As part of its responsibilities, the FDIC reviews statements that make representations about deposit insurance.

Provisions in the Federal Deposit Insurance Act, 12 U.S.C. § 1828(a)(4), and its implementing regulation, 12 C.F.R. Part 328, prohibit any person from representing that an uninsured deposit is insured or from knowingly misrepresenting the extent and manner in which a deposit or certificate is insured under the Act, whether by making affirmative statements or by omitting material information. Further, pursuant to Part 328, a statement regarding deposit insurance omits material information if the absence of such information could result in a reasonable consumer being unable to understand the extent or manner of deposit insurance provided. *See* 12 C.F.R. § 328.102(b)(1), (b)(3)(ii), and (b)(5). The FDIC has the authority to enforce these prohibitions against any person or entity. Enforcement tools available to the FDIC include the authority to issue cease and desist orders and assess civil money penalties.

Certain statements by **b4,b8** which appear on the website <https://b4,b8> and may also appear in other media, have come to the attention of the FDIC. The statements appear to misrepresent the manner and extent of deposit insurance available. These misrepresentations include small print at the bottom of **b4,b8** homepage stating **b4,b8** **b4,b8** Member FDIC,” without explanation that the rewards a customer earns are not insured by the FDIC. **b4,b8** on its website also represents that **b4,b8** are eligible for FDIC insurance”, without distinguishing the cash on **b4,b8** that may be eligible for deposit insurance from the bitcoin that may be tied to the card. Further, **b4,b8** Support page answers the question **b4,b8** by stating that **b4,b8** accounts are insured, without clarifying that rewards associated with the accounts are not insured.

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REL0000042136

Based on the foregoing, we request that you revise your website and any other consumer-facing materials, including but not limited to chatbots and social media posts, to remove all misrepresentations regarding FDIC deposit insurance. Please provide a copy of the revised statements, as well as a commitment to refrain from making similar misrepresentations in the future, to my attention at the email address below no later than fifteen (15) days from the date of this letter. Alternatively, if you believe that the representations made are accurate, please provide information and documentation supporting their accuracy to me via email no later than fifteen (15) days from the date of this letter.

Failure to promptly remedy the misrepresentations may result in the FDIC taking appropriate action. Enforcement tools available to the FDIC include the authority to issue cease and desist orders and assess civil money penalties. *See* 12 U.S.C. § 1828(a)(4)(E).

This letter constitutes an advisory letter within the meaning of 12 C.F.R. § 328.106. Accordingly, pursuant to 12 C.F.R. § 328.102(b)(6), future false or misleading deposit insurance representations may be deemed to have been knowingly made.

Should you have any questions about the contents of this letter, please contact me at rhcampbell@fdic.gov.

Sincerely,

**Rhonda
Campbell**

Digitally signed by
Rhonda Campbell
Date: 2023.08.17
14:53:53 -04'00'

Rhonda L. Campbell
Counsel
Consumer Protection & Compliance Unit
rhcampbell@fdic.gov

Via Overnight Mail

September 14, 2023

b4,b8

RE: Potential Violations of Section 18(a)(4) of the Federal Deposit Insurance Act

Dear **b4,b8**

I am an attorney in the Legal Division of the Federal Deposit Insurance Corporation (FDIC). As part of its responsibilities, the FDIC reviews statements that make representations about deposit insurance.

Provisions in the Federal Deposit Insurance Act, 12 U.S.C. § 1828(a)(4) (Section 18(a)(4)), and its implementing regulation, 12 C.F.R. Part 328 (Part 328), prohibit any person from representing that an uninsured financial product is insured or from knowingly misrepresenting the extent or manner in which a deposit is FDIC-insured under the Act, whether by making affirmative statements or by omitting material information. Under Part 328, a statement regarding deposit insurance would be deemed to omit material information if the absence of such information could result in a reasonable consumer being unable to understand the extent or manner of deposit insurance provided. See 12 C.F.R. 328.102(b)(1), (b)(3)(ii), and (b)(5). The FDIC has the authority to enforce this prohibition against any person or entity.

Certain statements by **b4,b8** which appeared on the website, [https://**b4,b8**](https://b4,b8) and may also appear in other media, have come to the attention of the FDIC. For example, **b4,b8** provides a cardholder agreement on its website that states that if a consumer provides personal identifying information then their funds held in the prepaid account **b4,b8**

b4,b8 without any further qualifications. However, further down in the same disclosure, the agreement provides that the prepaid account would only be eligible for FDIC insurance **b4,b8**

b4,b8 These statements appear to contradict each other and may mislead a consumer as to the manner of deposit insurance provided. Moreover, **b4,b8** advertises that prepaid card funds are held at an FDIC-insured bank, but fails to identify, as part of the deposit insurance statement, the name of the insured depository institution in which consumer funds may be placed, which constitutes a material omission.

Based on the foregoing, we request that you revise your website and any other consumer-facing



materials to address all misrepresentations regarding FDIC deposit insurance, including but not limited to apps, chatbots, and social media posts.

Please provide a copy of the revised statements, as well as a commitment to refrain from making similar misrepresentations in the future, to my attention at the email address below no later than 15 days from the date of this letter. Alternatively, if you believe that the representations made are accurate, please provide information and documentation supporting their accuracy to me via email no later than 15 days from the date of this letter.

Failure to promptly remedy the misrepresentations may result in the FDIC taking appropriate action. Enforcement tools available to the FDIC include the authority to issue cease and desist orders and assess civil money penalties. See 12 U.S.C. § 1828(a)(4)(E) and 12 C.F.R. § 328.104-107.

This letter constitutes an advisory letter within the meaning of 12 C.F.R. § 328.106. Accordingly, pursuant to 12 C.F.R. § 328.102(b)(6), future false or misleading deposit insurance representations may be deemed to have been knowingly made.

Should you have any questions about the contents of this letter, please contact me at (b6) or mstrier@fdic.gov or Amy Towns at atrouttowns@fdic.gov.

Sincerely,

(b6)

Mara A. Strier
Counsel
Administrative Enforcement and Investigation Unit
mstrier@fdic.gov

Legal Division

550 17th Street NW, Washington, D.C. 20429-9990

www.fdic.gov
page 2

REL0000042136

Via Overnight Mail

December 21, 2023

b4,b8

RE: Disclosure Concerns Pursuant to Section 18(a)(4) of the Federal Deposit Insurance Act

Dear **b4,b8**

I am an attorney in the Legal Division of the Federal Deposit Insurance Corporation (FDIC). As part of its responsibilities, the FDIC reviews statements that make representations about deposit insurance.

Provisions in the Federal Deposit Insurance Act, 12 U.S.C. § 1828(a)(4) (Section 18(a)(4)), and its implementing regulation, 12 C.F.R. Part 328, Subpart B (Part 328), prohibit any person from representing that an uninsured financial product is insured or from knowingly misrepresenting the extent or manner in which a deposit or obligation is FDIC-insured under the Act, whether by making affirmative statements or by omitting material information. Under Part 328, no person may represent or imply that any uninsured financial product is insured or guaranteed by the FDIC as part of an advertisement, solicitation, or other publication or dissemination. See 12 C.F.R. 328.102(a)(2). Further, pursuant to Part 328, a statement regarding deposit insurance would be deemed to omit material information if the absence of such information could result in a reasonable consumer being unable to understand the extent or manner of deposit insurance provided. See *generally* 12 C.F.R. 328.102(b). For example, under Part 328, it is a material omission for a non-insured entity that advertises deposit insurance to fail to identify the insured depository institution(s) with which the representing party has a direct or indirect business relationship for the placement of deposits and into which consumer's deposits may be placed. See 12 C.F.R. 328.102(b)(5).

We would like to bring to your attention certain statements on the **b4,b8** website, **b4,b8** advertises **b4,b8**

b4,b8

b4,b8 a reasonable consumer may be misled to believe that their stock or crypto rewards earned through the **b4,b8** are FDIC-insured. FDIC deposit insurance does not cover stock or crypto rewards and only covers funds in accounts at an insured depository institution (IDI) in the event of such institution's failure.

Furthermore, within that advertisement, **b4,b8** does not identify the IDI where consumers' funds may be placed. Although the name of the IDI is identified on the separate **b4,b8** Agreement, that disclosure is separate and distant from the deposit insurance representation on the **b4,b8**

webpage. The name of the IDI where consumers' funds may be placed is necessary for a consumer to understand the extent or manner of deposit insurance provided.

[REDACTED]

Based on the foregoing, we request that you revise your websites to address the identified concerns regarding FDIC deposit insurance. Please provide confirmation that you have addressed the above concerns to my attention by January 10, 2024. Alternatively, if you believe that the representations made are accurate, please provide the supporting information to me.

Should you have any questions about the contents of this letter, please contact me at mstrier@fdic.gov.

Sincerely,

Mara A. Strier

Mara A. Strier
Counsel
Administrative Enforcement and Investigation Unit
mstrier@fdic.gov

[REDACTED]

Legal Division

550 17th Street NW, Washington, D.C. 20429-9990

www.fdic.gov
page 2

REL0000042136

April 1, 2022

To: **b4,b8** RADD Correspondence File

From: **b8** Case Manager

Subject: Bank Contact: **b4,b8** Proposed New
Product: **b4,b8**

On March 18, 2022, FDIC Deputy Regional Director Serena Owens, FDIC Assistant Regional Director Eric Guyot, and Case Manager **b8** participated in a Teams call with President and Chief Executive Officer **b4,b8** and Chief Operations Officer **b4,b8** (Bank Management). The purpose of the meeting was to discuss correspondence sent to the bank on March 11, 2022, asking the bank to pause all crypto asset-related activity. The following are some brief bullets regarding the discussion.

- The bank signed a contract in **b4,b8** with **b4,b8** and **b4,b8** with original plans to deploy **b4,b8** **b4,b8**
- The product will allow customers to buy, sell, and hold Bitcoin through **b4,b8**
- The Bitcoin will be held in a **b4,b8** custodian account (risk assessment indicates custodial assets will be property of bank customers, even in bankruptcy).
 - A customer fee of 2% per transaction will be charged for each purchase and each sale.
 - The bank retains **b4,b8** of the fee.
 - The bank will settle daily with **b4,b8** and this will not be a sweep-type arrangement.
 - The Bitcoin reportedly will never touch the bank's balance sheet.
 - No "wallets" will be offered as part of the **b4,b8** product.
- The intent is to stay competitive with Fintech companies and other banks.
- Bank management has performed due diligence.
 - The risk assessment covers credit, liquidity, market, compliance (e.g., BSA/AML), operational, strategic, and reputational risk.
 - Management identified the high and medium risks as compliance, operational, strategic, and reputational.
- The customer's online account will show Bitcoin separate from FDIC-insured bank accounts with appropriate consumer disclosures, including that Bitcoin is not FDIC insured.
- Bank Management stated that as an early adopter they will not pay for any development costs, and that IT integration will only be between the bank's online banking vendor **b4,b8**



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

August 17, 2022

Via Electronic Mail

b4,b8

Subject: *Determination of Financial Institution Letter (FIL) 16-2022 Applicability*

Dear **b4,b8**

Thank you for contacting us regarding a prospective banking relationship with crypto-asset exchange company **b4,b8**. If management intends to further pursue the activities discussed with Case Manager **b8** on June 21, 2022, please provide the FDIC with a formal notification as requested in Financial Institution Letter (FIL) 16-2022.

In anticipation of such notification, we request that management provide the following information as part of the notification:

- Describe how the proposed relationship fits into the bank's strategic plan. Provide any change in the bank's strategy as a result of the contemplated relationship, including liquidity and capital management plans, contingency plans, and stress testing and/or scenario analyses.
- If management anticipates entering into legal contracts with **b4,b8** please provide the draft contract(s).
- If **b4,b8** plans to provide customers with disclosures related to the bank holding of funds, please provide the disclosure (or draft, if it has not been finalized).
- Provide more details regarding the anticipated structure and functionality of the proposed omnibus for-benefit-of (FBO) account, including the rationale for the three account structure mentioned on the June 21, 2021 call with Case Manager **b8**.
- Provide the anticipated titling on the account signature card.
- Describe whether subledgers reflecting balances and transaction of underlying end-users will be maintained, which entity will maintain such records, and expertise of such entity in such recordkeeping.
- Provide the anticipated overall size and daily activity of the proposed FBO account in both dollars and number of **b4,b8** accounts or wallets.

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

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b4,b8

Determination of FIL 16-2022 Applicability

Page 2

- Describe how management may limit the size of the account(s) or raise additional capital if, for example, deposits exceed projections.
- Describe how management will evaluate the staffing capacity (number and expertise) needed to oversee the proposed depositor relationship.
- Explain the perceived change in the bank's Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT) profile, including the volume of domestic and/or foreign transactions and planned enhancements to the institution's AML/CFT infrastructure to handle the volume.
- Describe the perceived change in information security profile and resulting controls within the technology environment.
- Explain how **b4,b8** discloses the limited applicability of federal deposit insurance to U.S. dollar (USD) funds. Indicate who will be responsible for reviewing all public statements, marketing materials, or consumer disclosures that include the bank's name.
- Identify who will be responsible for researching and resolving customer disputes covered by Electronic Fund Transfers (Regulation E).
- Identify who will provide customer support for customer inquiries or complaints involving the **b4,b8** USD deposit accounts.
- Describe how the bank will monitor advertisements, marketing, and disclosures related to the **b4,b8** deposit accounts.
- Provide the bank's due diligence for activities related to **b4,b8** including the prospective offering of merchant processing services. Given that **b4,b8** reports itself as **b4,b8**
b4,b8 describe additional perceived risks and additional risk management controls contemplated to mitigate such risks.
- Provide draft or finalized scope of work and engagement letter(s) for any current or anticipated consulting work performed by outside counsel regarding the prospective relationship with **b4,b8**

If you have any questions regarding this correspondence, please contact Case Manager **b8**
b8 at **b8** or **b8** or Acting Case Manager **b8** at
b8 or **b8**

Sincerely,

/s/ *Perissa Ali Clark*

Perissa Ali Clark
Assistant Regional Director

cc:

b8

REL0000042335

b8

From: **b8**
Sent: Monday, July 17, 2023 8:42 AM
To: FDIC San Francisco Regional Office
Subject: FW: [EXTERNAL MESSAGE] Re: **b4,b8** SECURE E-MAIL
Attachments: **b4,b8** letter re **b4,b8** 7.12.23.pdf

Include email: Yes

Institution Name: **b4,b8**

City & State: **b4,b8**

Division: RMS

Source: RO

Folder: Correspondence

Name: Letter to Bank

Description: 7-12-23 Letter to **b4,b8** Concerning **b4,b8** Deposit Activity

Thank you,

b8

Case Manager, RMS

Federal Deposit Insurance Corporation

25 Jessie Street

San Francisco, CA 94105

b6,b8

FDIC

From: **b8**
Sent: Wednesday, July 12, 2023 3:02 PM
To: **b4,b8**; Clark, Perissa Ali <PaliClark@FDIC.gov>
Cc: **b8** **b4,b8**

Subject: RE: [EXTERNAL MESSAGE] Re: **b4,b8** SECURE E-MAIL

Hi **b4,b8**

Thank you for reaching out and talking with Financial Analytics Data Scientist **b8** and myself this afternoon. As I mentioned over the phone, the FDIC's San Francisco Regional Office was actually in the final stages of sending you a letter regarding **b4,b8** so I have attached that letter to this email reply. I want to point out that our attached letter asks for additional documentation concerning **b4,b8** within 45 days (August 26, 2023) as well as more timely notification of new crypto-related activities in accordance with FIL-16-2022 going forward.

We will review your email and the documentation you provided earlier today and will let you know if we have any questions beyond what is already included in our attached letter. Also in accordance with our attached letter, we ask that **b4,b8** be more proactive and timely in its notification of new crypto-related activities, including if the bank decides to move forward with this particular relationship.

Thank you very much,

b8

Case Manager, RMS

Federal Deposit Insurance Corporation

25 Jessie Street

San Francisco, CA 94105

b6,b8

FDIC

From: **b4,b8**

Sent: Wednesday, July 12, 2023 12:23 PM

To: Clark, Perissa Ali <PaliClark@FDIC.gov>

Cc: **b8** **b8** **b4,b8**
b4,b8

Subject: RE: [EXTERNAL MESSAGE] Re: **b4,b8** SECURE MAIL

CAUTION: External email. Do not click links or open attachments unless you recognize the sender and know the content is safe.

Hi All-

Could we please re-open a proactive collaborative discussion relative to **b4,b8**

We do not want to consider future relationship with **b4,b8** without the full mutual understanding / collaboration with the FDIC and **b8**

As an update, see attached recently received by the Bank from **b8** Generally, the attached discusses the following:

-
-
-

b4,b8

Based on the above, **b4,b8** is eagerly seeking an operating deposit bank relationship in conformance with the parameters of the **b4,b8** **b4,b8** reports that their access to the US banking system has been severely impacted.

It seems to us (opinion only) that **b4,b8** continued operations / survivability, along with the funds remaining in the US banking system during the course of the **b4,b8** is in the best interest of **b4,b8** and other stakeholders. Further, the monthly reporting process and limits placed by **b4,b8** likely serve to reduce certain risks related to the banking relationship that may have existed previously; **b4,b8** **b4,b8** Specifically, **b4,b8** aids in reducing certain BSA/AML risks, allegations of the co-mingling of corporate and customer funds, etc. **b4,b8** does not necessarily add any risk mitigation to the Bank's reputational risk, etc.

Looking forward to your thoughts, guidance, and open discussion.

When can we meet?

Thanks

b4,b8

**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 12, 2023

Via secure electronic mail

b4,b8

Subject: **b4,b8** Deposit Activity

Dear **b4,b8**

Thank you for notifying us on May 26, 2023, regarding the Bank's engagement with **b4,b8** (collectively referred to as **b4,b8**) for deposit account related services. On June 6, 2023, you indicated that the Bank's Board has elected to close all **b4,b8** accounts.

We understand that the Bank's Board has authorized management to engage with up to a maximum of three additional crypto company relationships. While the **b4,b8** related accounts have been closed, we request the following information regarding the Bank's assessment of crypto-related risks to the banking organization, their customers, and the broader U.S. financial system:

- List of all **b4,b8** deposit accounts opened, regardless if activity existed, and the following information for each deposit account created:
 - Statement(s),
 - Beneficial ownership information and all agreements entered into,
 - Deposit account applications.
- All bank due-diligence and risk assessments performed on **b4,b8** and related companies/affiliates.
- **b4,b8** reports received from third-party reviews including **b4,b8** and **b4,b8**. Please also include any recommendations and documentation of any planned risk mitigants responsive to the reports.
- Board minutes and related packages that discuss the **b4,b8** relationship, as well as any training that the Board has received on digital assets.

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

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b4,b8

b4,b8 Deposit Activity

Page 2

For your reference, the FDIC, the Board of Governors of the Federal Reserve System, and the Office of the Comptroller of the Currency issued the *Joint Statement on Crypto-Asset Risks to Banking Organizations* (Joint Statement) on January 3, 2023 via Financial Institution Letter (FIL)-01-2023 (<https://www.fdic.gov/news/financial-institution-letters/2023/fil23001.html>). It states 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. Furthermore, this Joint Statement details specific key risks associated with crypto-assets and crypto-asset sector participants that banking organizations should be aware of, while also highlighting that the agencies have safety and soundness concerns with business models that are concentrated in crypto-asset-related activities or have concentrated exposures to the crypto-asset sector.

The FDIC also issued FIL-16-2022, *Notification of Engaging in Crypto-Related Activities*, on April 7, 2022. It 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. This includes when initial discussions, conversations or evaluations commence regarding a new or existing partner with crypto-related activities.

Action Requested

- Within 45 days of the date of this letter, please provide the above-noted items to both the FDIC and the [b8]. The Bank may upload the documents to the existing [b4,b8] *Notification Materials* Enterprise File Exchange session (<https://efx.fdic.gov/>).
- The FDIC requests that bank management be more proactive and timely in its notification of new crypto-related activities, especially if due diligence is being performed or non-disclosure arrangements are entered into.

If you have any questions, please contact Case Manager [b8] at [b6,b8] or [b8]

Sincerely,

PERISSA
CLARK

Digitally signed by
PERISSA CLARK
Date: 2023.07.12
11:39:21 -07'00'

Perissa Ali Clark
Assistant Regional Director

cc:

b8

REL0000042336



May 27, 2022

TO: FILE

FROM: b8
Supervisory Examiner

SUBJECT: b4,b8
Relationship With b4,b8

CONTENTS OF MEMO

- Purpose
- b4,b8 Timeline
- Product
- Permissibility
- Implementation
- Risk Assessment and Acceptance
- Dissolution of Program
- Summary and Future Considerations

PURPOSE

The purpose of this memo is to highlight the engagement, and eventual disengagement, of b4,b8 with b4,b8. This memo will describe the nature of the engagement, the factors that influenced the decision to accept the engagement, the risk assessment and risk management of the early stages of the engagement, and the eventual end of the engagement.

b4,b8 **TIMELINE**

01/13/2022 – “Management Presentation to FDIC and b8 informs regulators that the Bank “intends to enter an agreement with b4,b8 (the Bank’s current online/mobile provider) and b4,b8 to act as a finder for new Bitcoin (BTC) service.”

b4,b8 Directorate passes a Board Resolution to engage in a Bitcoin Program through b4,b8 which contains the following verbiage: “Whereas, the Board of Directors of b4,b8 has reviewed risk assessments and other relevant background materials relating to the services proposed to be offered through a program with b4,b8

b4,b8 and/or certain of its subsidiaries **b4,b8** to **b4,b8** customers; and

Whereas, the Bitcoin Program would allow the bank's customers to (i) establish an account with **b4,b8** and (ii) buy, hold, and sell bitcoin for the customer's own account; and

Whereas, our outside counsel has advised the bank that such a Bitcoin Program does not violate any requirements of **b4,b8** Banking Lawand that **b4,b8** and its affiliates are also regulated by the **b4,b8**. believe that the bank may participate in the Bitcoin program."

b4,b8 Chief Operating Officer (COO) **b4,b8** sends a letter to the **b4,b8** **b4,b8** informing the State that they intend to offer the **b4,b8** project soon, as the Board approved offering the **b4,b8** part of it during the development of the 2022 Strategic Plan.

02/01/2022 – The Bank holds a virtual conference involving senior management from **b4,b8** 8 representatives from the **b8** and FDIC Assistant Regional Director (ARD) Steven Slovinski. Multiple members of Bank management later go on to claim that no regulators raised questions or objections about the program, and that the only request was the FDIC representative requesting a copy of a Permissibility Memo prepared by **b4,b8** legal representation counsel.

b4,b8 – The **b4,b8** initiative is rolled out to employees. The product is in the "Friendly User and Pilot Test" stage.

b4,b8 – The **b4,b8** initiative is rolled out to bank customers. The product remains in the "Friendly User and Pilot Test" stage.

03/24/2022 – **b8** **b8** **b8** sends an email to the Bank reminding management that they could not begin to offer this service without prior **b8** approval, which management had not yet obtained.

b4,b8 – **b8** **b8** and FDIC Case Manager (CM) **b8** hold a meeting with Bank management in response to the prior day's email. Bank voices multiple objections to SBE **b8** email, specifically that some of the specific regulations cited in the email are not applicable. However, based on the email and the corresponding meeting, management puts the **b4,b8** initiative on hold, as of this date, until all required approvals are in place.

b4,b8 – Bank management informs examiners that the Bank is "withdrawing" from the **b4,b8** program. Management led off the meeting stating that they were putting the **b4,b8** program "on hold." When examiners asked for clarification, since the program was already on "pause," management elaborated that it was their intention to "withdraw" from the program. The stated reasons for the withdrawal were A) volatility in the BTC/crypto space of recent weeks, and B) the amount of management time associated with the **b4,b8** program. However, management did go on to say, later in the conversation, that they might consider pursuing the

[b4,b8] relationship again down the line “once some of the regulatory questions have been answered.”

[b4,b8] – Directorate passes a Board Resolution formally withdrawing from [b4,b8] The Resolution contains the following verbiage:

“WHEREAS, the Board of Directors of [b4,b8] has determined that, due to current cryptocurrency market volatility, and evolving regulatory framework, that offering the Bitcoin Services to its customers by [b4,b8] is not currently consistent with the bank's strategic plan.

NOW, THEREFORE, BE IT RESOLVED, that the Board of Directors' previous approval of the offering the Bitcoin Services to the bank's customers through the Bitcoin Program offered by [b4,b8] be and it hereby withdrawn with phased launch discontinued effective immediately...”

05/26/2022 – Examiners have a follow-up call with management to discuss the logistics of the withdrawal. COO [b4,b8] provides an approximate timetable for withdrawal (discussed below) and informs examiners that all customers will be “made whole” by [b4,b8] To clarify, COO [b4,b8] states that [b4,b8] will reimburse all customers for any money they lost on their Bitcoin investments during the life of the program, as well as any fees incurred from [b4,b8] activity during the life of the program.

PRODUCT

The [b4,b8] product, as implemented at the Bank, was a facility that allowed Bank customers to purchase BTC directly from [b4,b8] with the use of their Bank accounts.

The mechanics of the program allowed for Bank customers to use a Bank-branded website or app to directly buy BTC on the [b4,b8] platform. Bank customers were able to enroll in the [b4,b8] program, access the [b4,b8] platform, and use USD funds held in their Bank accounts to buy BTC directly from [b4,b8] The BTC was held at [b4,b8] and no BTC was held on the Bank's balance sheet. Further, Bank customers were only able to purchase BTC in a “walled garden” environment, which is to say that customers could not move BTC in or out of its [b4,b8] wallet, or otherwise transact in BTC. Customers could only buy BTC with USD from their bank deposits, and then sell the BTC in its [b4,b8] wallet, and take the USD proceeds from those sales back in to their Bank accounts.

The [b4,b8] platform suite allowed for a wider range of functions, such as paying interest on deposit accounts with BTC, paying customer loyalty rewards with BTC, and issuing BTC-based loans. However, in the pilot stage that the [b4,b8] program was in, Bank management only offered the ability to buy BTC from [b4,b8] Additionally, in multiple discussions with examiners, Bank management never indicated they wanted to use any [b4,b8] platform functionality beyond allowing their customers to purchase BTC directly from their Bank accounts.

PERMISSIBILITY

A March 31, 2022, Memo, entitled “*Permissibility of Offering Bank and Savings Association Customers and Credit Union Members the b4,b8 Solution*” b4,b8 was prepared b4,b8 b4,b8 to address the matter of permissibility for all potential b4,b8 clients. The memorandum was prepared for b4,b8 and provided by b4,b8 to the Bank.

The b4,b8 Memo, in part, opines that b4,b8 banks are permitted to offer the b4,b8 program to their customers, due specifically to the “finder authority that has been recognized for b4,b8 by the b4,b8 in a non-public letter.” The b4,b8 Memo goes on to opine that the b4,b8 offering does not require a b4,b8 to have a b4,b8 or other approval to conduct business in virtual currency business activity, as the customers are direct customers of b4,b8, and the Bank’s only role in this program is to debit and credit USD in the customers’ deposit accounts once the customer buys and sells BTC through b4,b8

In addition to the legal opinion provided by b4,b8 counsel, management consulted with b4,b8. In a memo dated January 18, 2022, COO b4,b8 memorialized a phone call she had with b4,b8 in which COO b4,b8 presented the b4,b8 initiative, asked questions, and was told by b4,b8 that there were no State or Federal regulations prohibiting the b4,b8 initiative. b4,b8 did advise COO b4,b8 to write strict and explicit disclosures, explaining the risks involved with the program. COO b4,b8 revised the memo two times with verbiage used for the more direct and specific disclosures. This memo, documenting a phone call to counsel, is the only evidence of management seeking its own legal opinion on the permissibility of the b4,b8 offering, as management **DID NOT** provide examiners with formal legal written opinion from their own counsel. Examiners questioned management about how it formed its opinion on permissibility without its own formal legal opinion, and, after referencing this memo/phone call, President & Chief Executive Officer (CEO) b4,b8 said that he b4,b8 b4,b8

Of note, the Bank is a publically-traded entity, and management **DID NOT** consider any SEC Accounting Bulletins (SABs) when considering permissibility of the b4,b8 initiative. After advisement from Deputy Chief Accountant b4,b8 examiners approached bank management and specifically asked if it considered the applicability of either SAB-74 or SAB-121 to the b4,b8 initiative. CEO b4,b8 told examiners that management never considered permissibility in regards to SEC regulations.

IMPLEMENTATION

Management rolled out the b4,b8 initiative in the form of a “Friendly User and Pilot Test” first stage. Management made the program available to employees on b4,b8 and to customers on b4,b8. When the program was put on hold on b4,b8 the Bank had 61 people participating in the program, 38 of which were employees, who had purchased

approximately \$6,000 (MV as of 3/25/22) in BTC. No other potential functionalities of the **b4,b8** program were activated besides the ability to buy and sell BTC.

RISK ASSESSMENT & ACCEPTANCE

Board Approval

The Board approval process was overly dependent on **b4,b8** generated information. The Board approved participation of the **b4,b8** program based on a January 18, 2022, presentation. The 3-page (counting title page) PowerPoint presentation was sparse with specific details, contained “high-level” talking points and, based on discussions with CEO **b4,b8** during the examination, was based on information provided primarily by **b4,b8**. The presentation did include statements from CRO **b4,b8** stating that he was “comfortable” with participation in the program. However, management did not provide any documentation supporting how CRO **b4,b8** arrived at that position beyond the ERM Risk Assessment (RA), which was generated by **b4,b8**. Further, the January 18, 2022, Board Resolution to adopt the **b4,b8** program documents that the Directorate’s decision on both the permissibility and manageable risk of the program was influenced by the presence of a former **b4,b8** on **b4,b8** senior management team.

Enterprise Risk Management (ERM)

The ERM RA document for the **b4,b8** product was generally satisfactory in identifying and mapping most of the risks associated with the **b4,b8** program; however, the process for generating this document was flawed, and the ERM RA seemed to understate the potential effect of reputation risk and consumer protection risk, respectively.

CRO **b4,b8** told examiners that he could not complete his own RA for the **b4,b8** product because it was a “new” product, and, as such, he “had” to use the **b4,b8** RA. Examiners disagreed with the assessment and the ROE (as transmitted to the RO) included a recommendation for management to assign an individual/office to review the ERM RA and ensure the risks are rated in a consistent, uniform, enterprise-specific manner.

As a result of the source of the ERM RA, there are certain risks associated with the **b4,b8** product that may be understated on the RA, specifically reputation and consumer protection risk. Both the RA and conversations with management understate the effect of reputational risk stemming from severe losses in the BTC space. When examiners questioned CRO **b4,b8** about the potential effect of BTC losses on customers’ opinion of the Bank, he told examiners “*people do dumb things with their money all the timeit’s not our fault if they lose money on investments.*” This attitude towards risk exposure seems reflective of the **b4,b8** documentation, as opposed to considering the potential ramifications of material BTC loss by its clientele. If management were to re-engage with the **b4,b8** program, DCP examiners should evaluate the appropriateness of management’s risk assessment policies.

Information Technology (IT)

Management did not consider [b4,b8] as part of its IT RA, and assumed all IT risks were assumed by [b4,b8]. However, the IT examination noted two areas where the [b4,b8] product needed better consideration: Vendor Management and Online Access. Specifically, management did not document its response to, and treatment of, critical vendor red flags in a thorough manner. As such, management is not documenting its concerns about [b4,b8] or its vendors (such as Amazon or Sales Force). The ROE (as transmitted) included a recommendation to expand narrative and analysis around critical vendor red flags.

The IT examination also discovered an online access issue that needs to be considered through both IT and DCP lens. Examiners noted that customers could access [b4,b8] platform from the Bank app (once signed in) without needing an additional password (for [b4,b8] access) and with language that might not be sufficient to properly inform customers they are traversing from the Bank platform to the [b4,b8] platform. DCP examiners should review the appropriateness of this access if management re-engages the [b4,b8] initiative.

Bank Secrecy Act (BSA)

The [b4,b8] offering presents minimal BSA risk to the Bank, as documented by the adequate institution-specific BSA RA developed by BSA Officer [b4,b8]. The “walled garden” aspect of the [b4,b8] program, specifically the fact that customers can only buy and sell BTC from their wallet, and not move cryptoassets in and out of crypto wallet, reduces the BSA risk inherent to the [b4,b8] program. BSA Officer [b4,b8] appropriately documented and supported this assessment with a 9 page Bank-specific RA. Originally, examiners found [b4,b8] generated information in the 2022 BSA RA; however, during the last week of the examination, BSA Officer [b4,b8] provided the specific RA that highlighted how this program would not change the Bank’s BSA risk profile.

Please note, management did not provide the Bank-specific BSA RA to examiners until after management had informed examiners that it was discontinuing the [b4,b8] program. As such, examiners only reviewed the Bank-specific BSA RA document, but did not ask management any follow-up questions about, nor conduct any conference calls to discuss, the document subsequent to their initial review.

Compliance and Consumer Protection

There were no DCP examiners assigned to this examination; however, RMS and IT examiners noted multiple questions that should be referred to DCP examiners if/when management reinstitutes the [b4,b8] program. Specifically:

- Does the volatile and/or unregulated nature of BTC require additional consumer protection safeguards?
- Does the volatile nature of BTC, and cryptoassets in general, require greater monitoring and mitigation of reputation risk?
- Does the ability to access the [b4,b8] platform directly from the Bank app, without a separate/new password, introduce any type of greater liability to the Bank? Or,

concurrently, does it require greater/more thorough consumer disclosures at the point of transfer from Bank app to [b4,b8] app?

DISSOLUTION OF PROGRAM

Subsequent to the decision to withdraw from the [b4,b8] program, examiners held a call with management, namely COO [b4,b8] and CRO [b4,b8] on May 26, 2022, to discuss the logistics of how the Bank would unwind the program.

Of the 61 people in the program, only 31 customers actually held BTC (others signed up for the program but never purchased the asset). Further, 29 of those 31 customers are employees. [b4,b8] committed to make all customers whole, and intends to do so by reimbursing customers both for any losses their BTC positions incurred plus any fees that customers paid related to [b4,b8] (to either the Bank or to [b4,b8]).

The time table for completion projects to approximately 60 days from the phone call. Customers were given approximately 30 days to liquidate their BTC position. And then, from there, it would take approximately 30 days for [b4,b8] to document the investment loss, aggregate the fees, and reimburse all monies lost by each customers. COO [b4,b8] expected this process to be completed, in full, by “around” July 31, 2022.

SUMMARY AND FUTURE CONSIDERATIONS

In addition to the high volatility of BTC prices, the highest areas of inherent risk in the [b4,b8] program, based on review at this Bank, appear to be in the areas of reputation risk and consumer protection/compliance risk. Banks offering the [b4,b8] platform could be seen as “promoting/pushing” it on customers and, if BTC prices fall materially, could be seen as responsible for losses. Concurrently, the program seems to come with elevated consumer protection/compliance risk, as it is making a volatile investment more easily available to customers, and allowing access to the [b4,b8] platform directly through its app/website (without the need for a second password).

Moving forward, DCP examiners should consider these consumer protection risks/ramifications, FDIC Legal should determine permissibility of the product in State Non-Member Banks, and the all regulatory parties should consider whether the degree of volatility in BTC prices warrants additional scrutiny.

The [b4,b8] product requires banks to do institution-specific risk assessments and legal permissibility evaluations. Of paramount importance, institutions must generate both of these documents themselves, as opposed to relying on [b4,b8] generated information, and ensure that all of their assessments and treatments are bank-specific.

Moving forward, examiners reviewing banks involved with **b4,b8** should focus on the risk assessment and acceptance process, with specific attention paid to whom at the bank generated the documentation that the Board and senior management are reviewing. Additionally, all engagements with **b4,b8** should be accompanied by a bank's own, formal legal opinion.



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

August 28, 2024

Board of Directors

b4,b8

Subject: Response to Notification of Engagement in Crypto-Related Activities

Members of the Board:

The FDIC acknowledges the notification provided by President and Chief Executive Officer **b4,b8** **b4,b8** regarding your bank's intent to engage in digital asset activities. The notification was provided pursuant 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") to notify the appropriate FDIC Regional Director. The activities include **b4,b8** that may hold cryptocurrency.

So that we may better assess the **b4,b8** please provide responses to and/or documentation for the following:

b4,b8

b4,b8

Please provide the information requested within 30 days from the date of this letter. Please contact Case Manager **b8** at **b6,b8** or Assistant Regional Director Mark G. Taylor at **b6** if you have any questions. Additionally, **b8** Caseload Manager **b8** can be reached at **b6,b8**. 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/>.

Correspondence to the **b8** should be addressed to the **b8**
b8 using the following e-mail address: **b8**

Sincerely,

Mark G. Taylor

Mark G. Taylor
Assistant Regional Director
Federal Deposit Insurance Corporation

Sincerely,

b6, b8

From: [b8]
To: FDIC Chicago Regional Office; [b8]
Subject: FW: Please RADD
Date: Thursday, December 1, 2022 9:26:21 AM

PDF Email Only

Business Line: RMS

Bank Name: [b4,b8]

City, State: [b4,b8]

Folder: Correspondence

Source: RO

Doc Name: Miscellaneous

Description: Third Party Crypto Asset Activity- 2nd Request to bank

From: [b8]
Sent: Wednesday, November 30, 2022 12:09 PM
To: Richardson, Amy <AmRichardson@FDIC.gov>; Bush, Debbie J. <DBush@FDIC.gov>; [b8]
[b8] [b8]
[b8]; Muraywid, Sumaya A. <SMuraywid@FDIC.gov>; Marks, Alicia R.
<amarks@fdic.gov> [b8]
Cc: [b8]
[b8] [b8]
Subject: FW: Additional requests - crypto-asset activity

I will RADD this email.

From: [b8]
Sent: Wednesday, November 30, 2022 12:04 PM
To: [b4,b8]
[b4,b8]
Subject: Additional requests - crypto-asset activity

Hi [b4,b8]

Thank you for giving us the live demo on the [b4,b8] platform yesterday. It was very helpful. As mentioned yesterday, the below items are requested in order to comprehensively evaluate the platform. Some items were not provided (ex: #8), and some require additional details. If you could please provide documents back to us by December 14th, we would be most appreciative. Please use the EFX session and number the documents as indicated below. After we evaluate these documents, we will let you know what our next steps are.

Thank you!

Crypto-Asset Activity – Follow-up Request List (numbers correspond to initial Request List)

3. Any consumer compliance risk assessment that was conducted to evaluate the activity. Please confirm whether the Risk Assessment Table provided to examiners on 10/14 was a document prepared by **b4,b8**
5. Bank's legal analysis of the permissibility of the services under Part 362 of the FDIC's Rules and Regulations, and under the **b4,b8** banking regulations.
6. Documentation showing whether the bank has confirmed their conclusion regarding SAB 121 with their external auditor.
7. Bank's due diligence documentation and analysis for **b4,b8** and **b4,b8**
8. Signed agreements for the following: **b4,b8** Agreement; **b4,b8** Contract Amendment; **b4,b8** Agreement.
10. Bank resolution of attorney concerns regarding the contract language and insurance coverage.
11. Vendor Management Policy and other similar policies that would apply to this activity.
12. List of digital team members. Provide examples of daily monitoring reports. Provide more clarity on crypto responsibilities for COO and Retail Manager. Description of the internal controls related to the activity, including access controls.
18. A transaction flow showing data flow from all parties and apps involved, including the bank, **b4,b8**
24. Plans for ongoing monitoring and audit of crypto-related products and services offered by the Bank.

b8

Case Manager

Division of Risk Management Supervision

Federal Deposit Insurance Corporation

Chicago Regional Office

b6,b8

b8

May 18, 2022

Memo To: File

b4,b8

From:

b8

Case Manger

Subject: Second Call Regarding Bitcoin Finder Service

On April 14, 2022, the writer telephoned President/CEO **b4,b8** of the above bank to enquire about the status of the bank's plan to launch a Bitcoin finder service for customers. The following information was obtained.

- The service went live on **b4,b8**
- There have been 80 transactions totaling \$92,000. Seventy transactions were purchases and ten were sales. The sales totaled \$1,800, so most transactions have been buy and hold situations. One person is responsible for approximately \$50M of the purchases. Some of the transactions were bank employees who were testing the product if they wanted to. However, those were seemingly live transactions. A spreadsheet of transactions is attached.
- Based on the transaction list, approximately 36 people who have executed transactions, but some of those are bank employees.
- No complaints received from anyone.
- No technology issues have arisen.
- No unusual customer activity observed.
- No other banks in **b4,b8** group are involved as far as President **b4,b8** knows.

b4,b8 was informed that the FDIC may ask the bank to suspend the service, while the various issues are being considered at a national level. **b4,b8** noted that customers can open **b4,b8** accounts and transfer funds from the banking system without restriction, so it is unclear why this service is problematic.

TransactionId	b4,b8	UsersId	Userld	FirstName	LastName	TranType	USDTotatAmount	FeeAmount	fundsTransferStatus	Orderld	confirmedTime
1016	b4,b6,b8					BUY	73.5	1.5	TRANSFERRED	b4,b6,b8	b4,b6,b8
1024						BUY	9.8	0.2	TRANSFERRED		
1023						SELL	0.98	0.02	TRANSFERRED		
1022						SELL	1.43	0.03	TRANSFERRED		
1021						BUY	2.94	0.06	TRANSFERRED		
1008						BUY	19.6	0.4	TRANSFERRED		
1070						BUY	98	2	TRANSFERRED		
1068						SELL	102.5	2.09	TRANSFERRED		
1032						BUY	98	2	TRANSFERRED		
1011						BUY	88.2	1.8	TRANSFERRED		
1004						BUY	9.8	0.2	TRANSFERRED		
1043						BUY	19.6	0.4	TRANSFERRED		
1067						SELL	102.3	2.09	TRANSFERRED		
1029						BUY	98	2	TRANSFERRED		
1019						BUY	19.6	0.4	TRANSFERRED		
1006						BUY	98	2	TRANSFERRED		
1005						BUY	9.8	0.2	TRANSFERRED		
1025						BUY	49	1	TRANSFERRED		
1072						SELL	49.99	1.02	TRANSFERRED		
1030						BUY	49	1	TRANSFERRED		
1065						BUY	29.4	0.6	TRANSFERRED		
1044						BUY	19.6	0.4	TRANSFERRED		
1009						BUY	9.8	0.2	TRANSFERRED		
1066						BUY	4900	100	TRANSFERRED		
1049						BUY	4900	100	TRANSFERRED		
1078						BUY	490	10	TRANSFERRED		
1069						BUY	490	10	TRANSFERRED		
1055						BUY	980	20	TRANSFERRED		
1046						BUY	980	20	TRANSFERRED		
1036						BUY	9800	200	TRANSFERRED		
1071						BUY	98	2	TRANSFERRED		
1060						BUY	98	2	TRANSFERRED		
1058						BUY	98	2	TRANSFERRED		
1042						BUY	98	2	TRANSFERRED		
1007						BUY	98	2	TRANSFERRED		
1010						BUY	19.6	0.4	TRANSFERRED		
1045						BUY	490	10	TRANSFERRED		
1075						BUY	490	10	TRANSFERRED		
1073						BUY	490	10	TRANSFERRED		
1062						SELL	1012	20.65	TRANSFERRED		
1053						BUY	392	8	TRANSFERRED		
1051						BUY	490	10	TRANSFERRED		
1041						BUY	98	2	TRANSFERRED		
1027						BUY	98	2	TRANSFERRED		
1020						BUY	98	2	TRANSFERRED		
1002						SELL	19.6	0.4	TRANSFERRED		
1000						BUY	49	1	TRANSFERRED		
1031						BUY	490	10	TRANSFERRED		
1061						BUY	49	1	TRANSFERRED		

b4,b6,b8

98
19.6
98
490
490
9800
19600
9800
9800
490
490
98
24.5
98
19.6
9.8
98
98
19.6
98
411.6
98
980
474.35
490
49
98
98
3920
980
4900

b4,b6,b8

b4,b6,b8



September 1, 2022

Board of Directors

b4,b8

Subject: Third-Party Crypto Asset Activity – Information Request

Dear Members of the Board:

On April 20, 2022, we received [b4,b8] (the Bank) notification of the Bank's intent to offer customers the ability to buy, sell, and hold crypto assets through the Bank's mobile banking application in conjunction with [b4,b8] 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") 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 October 1, 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.

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 [b8] at [b6,b8] or Review Examiner [b8] [b8] at [b6,b8]. 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,
Jessica A Kaemingk
Acting Regional Director

Attachment: Crypto Asset Activity Request List

cc: [b8]

Crypto Asset Activity Request List

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, [b4,b8] 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 [b4,b8] including audits, financials, insurance, complaints, etc.
11. Description of what happens to customers' accounts or digital asset holdings if the Bank does not continue or cancels offering the services provided by [b4,b8]
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 [b4,b8] or the Bank on the amount of digital assets a consumer may purchase or sell (e.g. daily, weekly, monthly).
14. Description of the methodology that determines the price consumer pays to [b4,b8] for digital assets (e.g. Bitcoin, Ethereum, etc.). This includes providing an explanation of how any market price is determined and how the spread, if any, is calculated.
15. 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).
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).
25. Volumes to include: 1) number of active accounts using this service through the Bank, 2) total number and dollar volume of buy transactions completed (since implementation), and 3) total number and dollar volume of sell transactions completed (since implementation).



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

June 14, 2022

Board of Directors

b4,b8

Members of the Board:

On April 11, 2022, and April 21, 2022, we received correspondence from President and Chief Executive Officer **b4,b8** addressing **b4,b8** (bank) potential entrance into digital asset activities. Additionally, President **b4,b8** and several members of his staff met with representatives from the FDIC and **b8** on May 4th, 2022, to discuss the products and services that may be offered by the bank. We appreciate the opportunity to review the information provided and to meet with President **b4,b8** and his staff. We understand that due diligence is ongoing, as is the development of the program's framework, and that the bank is not currently engaged in digital asset related activity.

The correspondence includes a high level description of potential digital asset activity, and the meeting expanded on this activity. The potential activities include the offering of small dollar loans secured by digital assets to certain known customers with sources of repayment other than digital assets. To provide the means for the customer to transfer these digital assets to your bank, management proposed to establish digital wallets with two third party digital asset platforms. Additionally, management is exploring establishing an arrangement with another third party service provider, which would provide customers the capability to use the bank's online banking platform to purchase, sell, and hold digital assets through the third party service provider.

So that we may better assess management's proposed activities, please provide the following information:

- For each product or service planned
 - the structure thereof, including borrower credit criteria, allowable loan purposes, transaction approval structure, any limitations for individual loan amounts or portfolio concentrations, and third party services used for each stage of activity from the bank and consumer perspective;
 - Bank Secrecy Act (BSA) / Countering the Financing of Terrorism (CFT) / Office of Foreign Assets Control implications thereof, including how suspicious activity is monitored;
 - how engaging in the various activities relating thereto may impact customer risk scoring, consumer compliance, and consumer disclosure requirements; and
 - IT related impacts thereof such as the maintenance of the confidentiality of personally identifiable information and data integrity.

- Regarding loans secured by digital assets, please include an overview of the valuation methodology used to determine the loan to value ratio at origination and on an ongoing basis, frequency of the valuation, reconciliation of sources with different valuations, and process for administering customer disputes regarding valuations. Additionally, provide draft copies of loan and security agreements, if available.
- Board approved policies and procedures developed to administer all digital asset activities. Additionally, please provide Board minutes reflecting approval, discussion, analysis, and any associated documentation relating to the planned digital asset activity.
- Information on the types of wallets selected, how wallets are structured (e.g. custodial wallets or other), how customer digital assets will be identified within wallets, how any customer digital assets will be transferred into wallets (e.g. will the bank receive assets directly from customers or will they be transferred directly into wallets), private key management framework (e.g. how will private keys be handled, who will have access to keys, etc.), and other associated controls.
- All vendor due diligence conducted on third parties associated with digital asset activities, including vendor contracts, the bank's legal review or assessment of contracts, financial reviews of third parties, and any related documentation.
- Framework of assigned responsibilities and qualifications for personnel involved in day to day administration of digital asset activity, including internal controls responsibilities. Additionally, please provide oversight responsibilities of the Board and each applicable committee, including members, frequency of meetings, and approval authority.
- The potential activity includes lending secured by digital assets, possible liquidation of digital assets, and use of third parties to perform various functions such as providing customers a platform to purchase, sell, and hold digital assets. Please provide the process of perfecting the bank's interest in the collateral and the process of a liquidation scenario, including if the bank will own or hold digital assets at any step in the process.
- Risk assessments conducted for planned digital asset activities. Additionally, please include those assessments that incorporate digital asset activity, such as the BSA/CFT risk assessment.
- Strategic Plan that details how digital asset activity achieves objectives of the Board, contingency plan should the activity fail to achieve those objectives, projections, and cost / benefit analysis for the planned activity.
- Consumer disclosures and marketing material used for the digital asset activity.
- Legal opinion discussing the permissibility under Federal and State law for each of the activities the bank proposes to enter into, specifically, the digital asset secured lending and the integration of third party digital asset purchase, selling, and holding services into the bank's online banking platform, along with supporting documentation.

- Analysis with respect to the U.S. Securities and Exchange Commission Staff Accounting Bulletin No. 121 and the planned digital asset activity.

Please provide the information requested within 60 days from the date of this letter. If the requested information has not been developed within this timeframe, the response should include the implementation status and timelines for each item. Additional follow-up will be needed for those items not yet developed. Please contact Case Manager [b8] at ([b6,b8]) or Assistant Regional Director Mark G. Taylor at [b6] if you have any questions. 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/>.

Sincerely,

Kristie K. Elmquist
Regional Director



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

Division of Risk Management

May 11, 2022

Memorandum To: RADD Interim Bank Contact File

From: [b8] Case Manager

Re: [b4,b8]

Subject: [b4,b8]: Digital-/Crypto-Asset Discussion

On May 11, 2022, CM [b8] contacted [b4,b8] Executive Vice President / Chief Risk Officer (EVP/CRO) [b4,b8], to discuss the bank's plans for digital asset activity. The following are brief bullets regarding the discussion with EVP/CRO [b4,b8]

- [b4,b8] is currently not engaged in any digital- or crypto-asset activity.
- Senior management does have an interest in engaging in crypto-asset activity at some point in the future.
- EVP/CRO [b4,b8] stated that research will likely begin sometime this year on various companies to engage with, but that no contracts are likely to be signed until sometime in 2023 at the earliest.

CM [b8] directed EVP/CRO [b8] to FDIC FIL-16-2022, *Notification of Engaging in Crypt-Related Activities*, and the information requirements outlined within that are to be submitted to the DALRO prior to engaging in any crypto-related activities.

REL0000042355



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

New York Regional Office

January 24, 2023

Board of Directors

b4,b8

Subject: Third-Party Crypto-Asset Activity

Dear Members of the Board:

On November 28, 2022, we received **b4,b8** (the Bank) notification of the Bank's intent to offer customers the ability to buy, sell, and hold cryptocurrency through the Bank's mobile banking platform in conjunction with **b4,b8** 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.

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 February 24, 2023. 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.

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 **b8** or Review Examiner **b8**. 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

cc:

b8

REL0000042356

Request List: Facilitation of Customer Purchase and Sale of Crypto-Assets Through Institution with Third Party

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, [b4,b8] and any other related parties.
6. The bank's independent permissibility analysis and determination with respect to the activity.
7. Bank's analysis of Securities and Exchange Commission Staff Accounting Bulletin 121 and its applicability.
8. Cost-benefit analysis for the activity.
9. Project plan for the activity.
10. Vendor management due diligence documentation and analysis related to both [b4,b8] and [b4,b8] including audits, financials, insurance, complaints, compliance with U.S. AML and sanctions requirements, etc.
11. Description of what happens to customers' accounts or holdings Bitcoin, Ether, or other crypto-asset if the bank does not continue or cancels offering the services provided by [b4,b8] or if the third party cancels or fails to perform under the contract.
12. Description of any fees that will be charged to customers related to the activity, and how they will be calculated. Also, describe if and how fees are split among the bank and any third parties involved in the activity.
13. Description of any transaction limitations imposed by [b4,b8] or the bank on the amount Bitcoin, Ether, or other crypto-asset a customer may purchase or sell (e.g. daily, weekly, monthly).
14. Description of transaction monitoring processes in place to identify and report suspicious activity associated with customer transactions between the bank and [b4,b8]
15. Description of the methodology that determines the price customer pays to [b4,b8] for Bitcoin, Ether, or other crypto-asset. This includes providing an explanation of how any market price is determined and how the spread, if any, is calculated.
16. Customer 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).
17. 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 customers by, or through, the bank in connection with activity. Also, a live demonstration of the user interface of the online banking or mobile application customer experience may be requested during the review of this activity.
18. Any other due diligence materials.
19. Describe how this crypto-asset activity fits into the bank's strategic plan and objectives of the board and actions that would be taken should the activity fail to achieve the objectives.

20. 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.
21. Board and committee minutes reflecting discussion, analysis, approval, and any documentation provided on the activity.
22. Risk assessment(s) related to the activity.
23. Internal training materials related to the activity.
24. Policies and procedures that will govern the crypto-related activity, including those related to consumer compliance and complaint resolution.
25. 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).
26. If program is Live/Beta Testing, provide transaction volumes that include: 1) number of active accounts using this service through bank, 2) total number and dollar volume of buy transactions completed (since implementation), and 3) total number and dollar volume of sell transactions completed (since implementation).



November 1, 2022

Board of Directors

b4,b8

Subject: Proposed Third-Party Crypto-Asset Activity

Dear Members of the Board:

By letter dated September 12, 2022, we received [b4,b8] (the Bank) notification that you are considering offering customers the ability to buy, sell, and hold Bitcoin through the Bank's branded online and/or mobile app interface banking platform in conjunction with [b4,b8] 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.

As notified through your letter, the Bank is in the exploratory stages and is not currently engaged in any crypto-related activities. As such, please keep us updated as the bank progresses, including the Bank's proposed timeline for engaging in the activity.

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. Please provide the information in the attached list by December 30, 2022, in order for the FDIC to begin those assessments. 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 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.

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 [b8] at [b6,b8] or Acting Review Examiner [b8] at [b6,b8]. Written correspondence should be addressed to my attention at the New York

November 1, 2022

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

cc:

b8

Institution: b4,b8

Request List: Crypto-Asset Trading Through Institution with Third Party

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 b4,b8 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 for the activity.
9. Project plan for the activity.
10. Vendor management due diligence documentation and analysis related to both the third party b4,b8 and b4,b8 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 b4,b8 or if the third party cancels or fails to perform under the contract.
12. Description of any fees that will be charged to customers 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 b4,b8 or the bank on the amount of Bitcoin a customer may purchase or sell (e.g. daily, weekly, monthly).
14. Description of the methodology that determines the price customer pays to b4,b8 for Bitcoin. This includes providing an explanation of how any market price is determined and how the spread, if any, is calculated.
15. Customer 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 customers by, or through, the bank in connection with activity. Also, a live demonstration of the user interface of the online banking or mobile application customer experience may be requested during the review of this activity.
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).
25. If program is Live/Beta Testing, provide transaction volumes that include: 1) number of active accounts using this service through bank, 2) total number and dollar volume of buy transactions completed (since implementation), and 3) total number and dollar volume of sell transactions completed (since implementation).



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

April 19, 2023

Board of Directors

b4,b8

Subject: Notification of Engagement in Crypto-Related Activities

Dear Members of the Board:

The FDIC acknowledges the notification provided by **b4,b8** **b4,b8** (the Bank), regarding the Bank's intent to offer a third-party authorization verification service for customer transactions in crypto-assets. The notification was provided pursuant 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.

While the notification provides a summary of the proposed activities, the FDIC will need additional documentation to understand what the bank is proposing and to evaluate the safety and soundness, consumer protection, and financial stability considerations of the proposed activities. Enclosed is a request for additional information needed to fully review the proposed activities and provide appropriate supervisory feedback to the Bank. Please respond to the request no later than May 31, 2023.

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 **b8** at **b6,b8** or Review Examiner **b8** **b8** at **b6,b8**. 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

cc: **b8**

REL0000042358

ATTACHMENT

Please provide final or draft copies of the following information with respect to *each proposed crypto-asset activity*.

General:

1. The notification letter to the FDIC addressed multiple activities. Provide a detailed and clear description of each activity that the bank proposes to engage in. For example, the letter addressed transaction verifications, node functions, multi-signature processes, and indicated that the bank has been informed it will not be custodian. Please clarify which of these functions the bank will perform and provide supporting information as follows:
 - Description of how the bank will verify transactions.
 - Description of whether the bank will serve as a validator node, and if not, how the bank will validate transactions without serving as a node.
 - Description of which blockchains the bank will provide verification services for (both layer 1 and layer 2).
 - Description of whether the bank will participate as signer (in M-N multisig).
 - Description of whether the bank will serve as custodian. If not, identify which entity will serve in that capacity and provide supporting documentation, including any determinations that the bank will not serve as custodian.
2. Description of projected/target clients the bank expects to serve and whether it would provide transaction verification that extends beyond its existing customers.
3. Discussion of why the bank seeks to engage in each activity.
4. Description of process to select which blockchains/crypto-assets the bank would provide services on/for and supporting analysis for those selections.

Technical:

5. End to end transaction flow diagram of each proposed activity, including:
 - A detailed description of the Bank's role in the process.
 - Any other entities involved and their role in the process.
6. Detailed description of b4,b8 role and the services it will provide to the bank, and to bank customers.
7. Detailed description of custody solution infrastructure, architecture, and controls for key generation, storage, and decryption.
8. Details of logical controls, such as multifactor authentication, user access controls, user access monitoring, user access rights, and logging procedures.
9. Detailed description of bank customers' personally identifiable information that will be disclosed to any outside party.
10. Detailed description of fees the bank will receive from any source (e.g., as incentives for validation from third parties and from customers) and what type of compensation the bank expects to receive.

Operational:

11. Implementation timelines.
12. Project plans.
13. Risk Assessments.
14. Cost benefit analysis, including expected activity volumes, income projections, and any other analysis performed to support the decision to engage in each activity.
15. Due Diligence analysis and associated documents of all critical third parties, including but not limited to [b4,b8], subcustodians, and wallet providers.
16. Contracts (including any drafts that the Bank is reviewing or considering).
17. Overview of the contracting process.
18. Any contract analysis performed prior to execution.
19. Legal analyses of permissibility.
20. Bank's analysis of Securities and Exchange Commission Staff Accounting Bulletin 121 and its applicability.
21. Description of how each proposed crypto-asset activity fits into the Bank's strategic plan, the Board's objectives, and actions that would be taken should the activity fail to achieve the objectives.
22. Policies and procedures (including drafts), including those related to internal controls, consumer compliance, Anti-Money Laundering/Countering the Financing of Terrorism, and complaint resolution.
23. Board and committee minutes reflecting discussion, analysis, approval, and any documentation provided with respect to each activity.
24. Organizational charts for each activity.
25. Descriptions of anticipated monitoring.
26. Contingency or wind down plans.
27. Internal training materials, including a list of employees that have or will receive training.
28. Insurance coverages for each activity.
29. Plans for the audit function, including the type of audits to be conducted and the required skillsets of the auditors.
30. Parameters regarding the acceptable crypto-assets to be verified.
31. Policies that dictate how many keys and authorizations are required.

Consumer Protection:

32. Customer agreements and disclosures (including template agreements for TPS service), sample account statements, sample transaction receipts, and any other terms and conditions (draft or proposed).
33. Descriptions of any fees that will be charged to customers and how they will be calculated. Also, describe if and how fees are split among the bank and any third parties, such as other key holders.
34. Webpages, mobile app or online banking screens, marketing materials, press releases, internal scripts, educational materials, and any other publicly-distributed information (draft or proposed).

35. Description of any eligibility criteria for bank customers to use the service.
36. A description of any planned use of multi-escrow arrangements.



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

August 30, 2023

Board of Directors

b4,b8

Subject: Request for Documents regarding Crypto-Related Activities

Dear Members of the Board:

The FDIC acknowledges the documents provided by the bank, on June 5, 2023, in response to the FDIC's April 19, 2023 information request regarding the Bank's notification of intent to offer a third-party authorization verification service for customer transactions in crypto-assets. The notification was provided pursuant to Financial Institution Letter (FIL)-16-2022, *Notification of Engaging in Crypto-Related Activities*.

FDIC staff has reviewed the documents provided and determined that additional information is necessary to further evaluate the proposed activities. Thank you for taking the time to walk through several clarification items with Case Manager [b8] and Regional Examination Specialist Kimberly Schmitt on July 11, 2023. As discussed during this call, enclosed is a request for the additional information. A number of items previously requested were not provided in the bank's recent submission and are also addressed in the attachment. Please respond to the request within 45 days of the date of this letter.

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 [b8] at [b6,b8] or Regional Examination Specialist Kimberly Schmitt at [b6,b8]. 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

cc: [b8]

ATTACHMENT

Please provide final or draft copies of the following information with respect to the proposed crypto-asset activity.

Request Items - New Items:

1. Details of qualitative and quantitative analyses of technology, information, and cyber security regarding the proposed activity.
2. A detailed description of third party signature (TPS) interaction with the solutions/services/products, such as (but not limited to) [b4,b8] blockchain, swaps, automated market maker, and other solutions/services/products.
3. The criteria, if any, utilized by the bank to determine which blockchain networks will be supported by TPS.
4. Supporting documentation or analysis of whether the insurance policy would cover a scenario in which the bank loses its key (and backups) and the associated digital asset becomes stranded or lost.
5. Explanation of how the bank will determine or confirm that a specified digital wallet (destination wallet) is owned by the specified beneficiary (person). Explain whether the Travel Rule is applicable and will be complied with, and whether Office of Foreign Assets Control checks will be conducted on the person associated with the wallet, or merely the digital wallet address.
6. Description of how transaction volume is determined, including for crypto-assets without readily ascertainable market value or non-fungible tokens (NFT) (if TPS will be provided).
7. Description of whitelisting process.
8. Bank's assessment of its potential liability in the event that customer verification procedures are not successful.
9. Description of the risk assessment process, including staff/departments/committees involved in developing, reviewing, and approving the risk assessment.
10. Bank's conflict of interest policy.

ATTACHMENT

Request Items - Outstanding:

1. Due Diligence ~~and associated~~ and associated documents of all critical third parties, including but not limited to **b4,b8** sub custodians, and wallet providers.
2. Details on the transaction fee.
3. Description of how and which entities will pay gas fees, at what stage it will be deducted, and how it will be recorded.
4. Description of the blockchains that the bank will utilize to provide TPS to customers, whether the TPS will operate with respect to any crypto-assets that are not associated with the **b4,b8** whether crypto-assets that utilize blockchain with privacy-enhancing technologies will be supported, and whether TPS will be provided for NFTs.
5. Supporting documentation to reflect that the bank is not serving as a custodian.
6. Project plans and timelines regarding the implementation of the crypto-asset activity.
7. Policies and procedures (including drafts) related to Anti-Money Laundering/Countering the Financing of Terrorism.



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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

January 2, 2024

Board of Directors

b4, b8

Subject: Request for Documents regarding Crypto-Related Activities

Dear Members of the Board:

The FDIC reviewed the documents provided by the bank on October 13, 2023, in response to the FDIC's August 30, 2023 information request regarding the bank's February 8, 2023 notification of intent to offer a third-party authorization verification service for customer transactions in crypto-assets. The FDIC also reviewed the documents provided by the bank, on June 5, 2023, in response to the FDIC's April 19, 2023 information request. The notification was provided pursuant to Financial Institution Letter (FIL) FIL-16-2022 Notification of Engaging in Crypto-Related Activities.

SCOPE OF THE REVIEW

The review focused on the bank's plans to offer a third-party authorization verification service for customer transactions in crypto-assets. Currently, the bank has no board-approved plans specific to this proposed activity¹ and has not completed critical components of its analysis or risk management framework. The bank has also not submitted requested information, as discussed further below. Therefore, this review was limited, and the assessment of the proposed service considered only the information provided to the FDIC as of the date of this letter. The assessment focused on understanding the bank's risk and compliance management frameworks related to this service and steps taken by the bank to evaluate the crypto-asset service, but as noted, it was limited due to incomplete information. This letter provides supervisory feedback for your consideration as the bank continues to evaluate this service offering.

¹ The bank's response for "board and committee minutes reflecting discussion, analysis, approval, and any documentation provided with respect to each activity" stated "Board has approved the overall Strategic Plan of the Bank." The Strategic Planning Committee documentation provided by the bank with that response reflects digital asset custody and developing the ability to deliver digital asset services programmatically in the Commercial Bank (Business Development) Theme Response, but it does not address third-party authorization verification services or include any analysis or specific board approval of the proposed crypto-asset service.

b4,b8**INFORMATION REQUESTS:**

While the bank has provided some of the previously requested information, there are multiple documents that the FDIC has yet to receive. These documents are necessary to further evaluate the proposed crypto-asset service. Most notably, the bank has not provided the following items:

1. A comprehensive timeline and project plan regarding the service.
2. Details of qualitative and quantitative analyses of technology, information, and cyber security regarding the proposed activity.
3. Due diligence analysis and associated documents of all critical third parties, including but not limited to **b4,b8** sub custodians, and wallet providers.
4. Legal analysis of permissibility (specifically under **b8** law).

BACKGROUND:

Crypto-related activities may pose safety and soundness and consumer protection risks to the institution and its customers. The Joint Statement on Crypto-Asset Risks to Banking Organizations (Joint Statement), issued by the FDIC, the Board of Governors of the Federal Reserve System, and the Office of the Comptroller of the Currency on January 3, 2023, may also serve as a useful resource for the Board and management regarding crypto-asset risks. Events of the past two years across the crypto-asset sector have been marked by significant volatility and have exposed vulnerabilities in the sector. These events highlight a number of key risks associated with crypto-assets and crypto-asset sector participants that banking organizations should be aware of, including those outlined in the Joint Statement. The types and levels of risks are dependent on the activity, implementation of the activity, and controls designed to mitigate the risks. Examples of risks that may be present may include compliance risk, legal risk, operational risk, third party risk, and strategic risk. The bank's offering of a verification service for customers and its role as a key holder, may present heightened risk to the bank's customers, such as:

- Confusion about the role of the financial institution in the crypto transactions;
- Lack of understanding about the nature and risks associated with crypto asset products;
- Inability to differentiate between the nondeposit products and traditional banking products, such as deposit accounts; and
- Misunderstanding the applicability of federal deposit insurance coverage.

Part 328, subpart B of the FDIC's Rules and Regulations, titled "False Advertising, Misrepresentation of Insured Status, and Misuse of the FDIC's Name or Logo," applies to any person, including non-banks, such as crypto-asset companies. (See 12 CFR part 328, subpart B.) Accordingly, the bank should determine if its vendor management policies and procedures effectively manage crypto-related risks, including compliance risks related to part 328, subpart B. In addition, the FDIC's Advisory to FDIC-Insured Institutions Regarding FDIC Deposit

b4,b8

Insurance and Dealings with Crypto Companies, issued on July 29, 2022, may also serve as a useful resource for the board and management regarding risks and concerns arising from crypto-assets offered by, through, or in connection with, insured depository institutions.

SUPERVISORY FEEDBACK:

Based on the information and documentation received to date, the FDIC is providing the following feedback; however, additional information, as noted above, is needed for further evaluation.

Legal:

The draft legal analysis provided by the bank is high level and does not provide sufficient support for its conclusions. For example, the analysis does not include a discussion of the proposed **b4,b8** service specific to the bank's proposed implementation or an analysis applying the specifics of the service to the law. The analysis also does not discuss potential legal risks related to custodial services.

Technical:

The bank explains that the proposed activity simply entails a contemplated use of Multi-Party-Computation-as-a-Service technology and "not a blockchain that enables swans for automated market makers in the context of the question. **b4,b8**

b4,b8

However, based on the review of **b4,b8** technical papers,² is it not clear that it would be possible for a bank to engage with **b4,b8** as a key custodian as part of a Multi-Party-Computation (MPC) service without exposing the customer to participation in the broader array of **b4,b8** offerings. **b4,b8** technical papers confirm that the **b4,b8** "governance" solution only operates in connection with **b4,b8** solution. In order to fully assess the risks, the bank should ensure it clearly understands and can articulate the interaction of the proposed activity with third-party platforms, including those platform's solutions, services, and products.

Custody:

The bank provided responses and documentation to address whether the bank would be serving as custodian. The responses do not clearly demonstrate that the bank's role and powers as described are not essentially custodial in nature.

b4,b8

Anti-Money Laundering (AML)/ Countering the Financing of Terrorism (CFT):

The bank's Bank Secrecy Act (BSA)/AML Policy and Trusted Third Party Signature (TPS) Procedures: Digital Services do not discuss how the bank will monitor TPS transactions for suspicious activity or how the implementation of **b4,b8** may mitigate risks arising from the TPS service. The TPS Procedures also does not sufficiently explain the sanctions screening process, as it relates to the TPS Service.

The TPS Transfer Request Form asks for beneficiary name and account number. The form also includes a space for documenting Office of Foreign Assets Control screening of the beneficiary. However, the TPS Procedures does not address how the bank will ensure that the beneficiary name provided by its client on the form is truly the person associated with the wallet address that is the beneficiary of the transaction. Furthermore, the TPS Procedures describes client transaction transfer procedures and states that the bank will verify the recipient has a whitelisted public address, but it does not explain what a whitelisted public address is and how the bank will verify this public address.

Risk Assessment:

The bank provided a power point regarding the Trusted Third Party Signature Service Risk Assessment. The risk assessment presentation follows the structure of the bank's risk assessment process and discusses several risk factors. Notably, however, the controls outlined in the risk assessment lack sufficient detail to support the adequacy of those controls in mitigating High Inherent Risks to Medium Residual Risks, or Medium Inherent Risks to Low Residual Risks, and many of the controls are yet to be developed and have not been tested. Furthermore, the risk assessment states that vendor due diligence assessment for **b4,b8** is satisfactory and reflects Satisfactory Inherent Controls, reducing the High Inherent Risk to Medium Inherent Risk. However, the bank has not provided the due diligence documentation requested. The risk assessment does not adequately evaluate the potential third-party risks, such as the risk of a service disruption in the event that **b4,b8** is no longer a functioning business or ceases support for this particular service offering. The risk assessment also does not adequately evaluate the technical, operational, and information risks of this complex and novel proposed activity. In addition, the documents provided do not include material details on the Board's review of the risk assessment, including any questions or concerns raised by the Board. Beyond these high level observations of the risk assessment, the FDIC is not able to fully evaluate the risk assessment without the aforementioned requested items that the bank has not provided.

Policies and Procedures:

The bank has not established a dedicated or board-approved policy for the proposed activity, stating that "The digital TPS service will follow existing policies relate to AML, Countering Finance of Terrorism, and Complaint Resolution. Additional procedures can be found in the Bank's TPS Service Procedures." The bank's TPS service procedures document outlines various procedural functions, such as for seed creation, storage procedures, and transport and control protocols. However, the lack of a board-approved policy, to guide decisions and establish standards and risk limits to ensure activities are consistent with the board's risk-appetite

and to clearly delineate accountability and responsibilities, should be addressed by the board. Lack of policies may hinder the bank's ability to control risks that arise from the proposed activity.

As noted above in the AML/CFT section, the TPS Procedures are not adequate from an AML/CFT perspective. Furthermore, the TPS Procedures lack critical controls for several procedures, such as physical controls (such as during the seed creation process, the mobile device with the Mobile Device Management system, or storage mechanisms and locations), as well as controls for access authorization, access tracking, user access monitoring, change management, approval authority limits, dual controls related to several processes. Processes, related to the storage of, and user authentication associated with, the production and back-up Multi Party Computation Mobile Device (MPC Mobile Device) lack detail on controls or are unclear. For example, the TPS Procedures for Storage of the Production MPC Device is limited to: "1. Bank Office: Must be stored in a safe. 2. Primary Residence/Home: Must be stored in a safe." Also, it is not clear that user authentication methods, "Authenticate client using the Bank's client verification process using last four of SSN, mother's maiden name, date of birth, or other secure code," are sufficient.

Within 45 days of the date of this letter, and prior to implementing the proposed activity, please provide documents previously requested and not yet received, as detailed on page 2, as well as responses to the FDIC's Supervisory Feedback starting on page 3. The requested information is needed to continue to assess (1) the adequacy of the bank's risk and compliance management frameworks related to this service and (2) the steps taken by the bank to evaluate the crypto-asset service. The FDIC requests that the bank notify this office of any material developments related to the proposed crypto-asset activity.

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 [b6,b8] or Regional Examination Specialist [b6,b8]. 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

cc: [b8]



FDIC

Federal Deposit Insurance Corporation

25 Jessie Street at Ecker Square, Suite 2300
San Francisco, California 94105

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

September 28, 2022

b4,b8

Chief Information Officer

b4,b8

Subject: Request for Additional Information – Crypto-Related Activities

Dear **b4,b8**

Thank you for engaging with the FDIC regarding **b4,b8**
b4,b8's intent to offer customers the ability to buy, sell, and hold Bitcoin through
the institution's online and mobile banking platform in conjunction with **b4,b8**
b4,b8. Financial Institution Letter (FIL), FIL-16-2022, Notification
of Engaging in Crypto-Related Activities 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.

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 and help us better understand
the activities based upon documents you have provided so far, please provide the additional
information in the attached list. Please provide the items requested as well as supporting
documentation within 60 days of the date of this letter.

Please email the documents electronically as a PDF through the FDIC Secure Email portal at
SFMailRoom@FDIC.gov. A copy of your communication can be forwarded to Case Manager

b8

and Review Examiner

b8

b8

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

REL0000042361

b4,b8

Crypto-Related Activities Notification
Request Items

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 questions, please contact Division of Risk Management Supervision Case Manager **b6,b8** or

b8 @fdic.gov or Division of Depositor and Consumer Protection Review Examiner **b6,b8**
b6,b8 or **b8**

Sincerely,

/s/ Paul T. Hornberger 9/28/2022

/s/ Susan L. Pinette 9/19/22

Paul T. Hornberger
Assistant Regional Director
Division of Risk Management Supervision

Susan L. Pinette
Assistant Regional Director
Division of Depositor and Consumer Protection

Enclosures

cc:

b8

Crypto-Related Activities Notification
Request Items

Attachment – Request Items

1. **b4,b8** contracts with **b4,b8**
2. Overview of the contracting process (e.g., who is/was involved in the review, analysis, and structuring)
3. Detailed description of the settlement process for customer buy/sell transactions between **b4,b8** and any other related parties
4. Permissibility analysis and determination – if any, in addition to the email with attorney **b4,b8**
5. **b4,b8** Assessment of SEC SAB 121 and its applicability
6. Cost-benefit analysis for involvement with **b4,b8** through **b4,b8** include expected volumes of activity, income projections used to determine whether the products are financially feasible, and any other analysis performed to support launching the products
7. Project Plan and implementation plan,
8. Description of any transaction limitations imposed by **b4,b8** or **b4,b8** on the amount Bitcoin a consumer may purchase or sell (e.g. daily, weekly, monthly), including how the limitations are determined and calculated.
9. Other than proposed advertisement to be developed in the future, any marketing materials, press releases, internal scripts, educational materials, and any other publicly distributed information related to the activity, including any screen shots/screen recordings of any online banking or mobile application interfaces that will be made visible to consumers by or through the **b4,b8** in connection with activities
10. Board and committee minutes reflecting discussion, analysis, and any documentation provided on the activity, assuming not approved yet
11. If previously provided document titled **b4,b8** Summary-20220414.docx in the April 2022 documents submitted by **b4,b8** is not the risk assessment, provide a copy of the risk assessments
12. Internal training materials related to the activity
13. **b4,b8**'s policies and procedures (not **b4,b8**'s) that will govern the crypto-related activity, include those related to consumer compliance and complaint resolution
14. If not outlined in policies and procedures, framework of assigned responsibilities and qualifications for those involved in day-to-day administration of digital asset activity, including internal controls responsibilities. Description of oversight responsibilities (e.g. management, staff, committees (including members, frequency of meetings), and collectively, their approval authority)
15. **b4,b8** noted in CIO **b4,b8**'s email on 6/8/22
16. **b4,b8**'s 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. **b4,b8** Fintech Review document answers "Yes" to the following question: "Do the fintech's financial reports demonstrate an ability to fulfill their financial obligations," as well as several other questions in the Financial Condition section relating to the fintech's ability to fulfill their financial obligations. Provide documentation of **b4,b8**'s analysis for those questions and the documentation utilized by **b4,b8** to perform the analysis.

**FDIC****Federal Deposit Insurance Corporation**

25 Jessie Street at Ecker Square, Suite 2300 San Francisco, California 94105

San Francisco Regional Office
(415) 546-0160

September 18, 2023

Board of Directors

b4,b8RE: Review of **b4,b8** Potential Bitcoin Service

Members of the Board:

We have reviewed your response dated December 28, 2022, and the corresponding documents provided in response to the Additional Information Request letter dated September 28, 2022. Additionally, examiners conducted a limited scope visit on February 6, 2023. Pursuant to Financial Institution Letter (FIL) 16-2022, this letter provides supervisory feedback relative to the consumer protection and risk management considerations of the proposed crypto-related activity. Please note that the results of this review are subject to the confidentiality restrictions of Part 309 of the FDIC Rules and Regulations.

SCOPE OF THE REVIEW

The review focused on **b4,b8** plans to offer its clients the option to buy, hold, and sell bitcoin through its online banking platform **b4,b8** and **b4,b8**. Currently, **b4,b8** is in a pre-development phase for its specific risk management framework but continues to consider implementing the crypto asset service. Therefore, this review was limited in scope and the assessment of the proposed service considered only the information provided to the FDIC as of the date of this letter. The assessment focused on understanding the institution's risk and compliance management frameworks related to this service and steps taken by the institution to evaluate the crypto asset service.

BACKGROUND

Crypto-related activities may pose safety and soundness and consumer protection risks to **b4,b8** and its customers. The types and levels of risks are dependent on the type of activity, implementation of the activity, and controls designed to mitigate the risks. Examples of risks that may be present include compliance, legal, operational, third party, and strategic. Facilitating customer crypto asset trading alongside traditional banking products and services may also present heightened risk to the **b4,b8** customers, including:

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- Confusion about the role of the institution in the crypto transactions;
- Lack of understanding about the nature and risks associated with crypto-asset products;
- Inability to differentiate between the nondeposit products and traditional banking products, such as deposit accounts; and,
- Misunderstanding the applicability of federal deposit insurance coverage.

SUPERVISORY FEEDBACK

The information provided to the FDIC on the proposed crypto-asset service through b4,b8 highlights that various aspects of the institution's risk and compliance management framework related to this service are in a development or pre-development phase, and have yet to be finalized. As such, the following items reflect high-level comments reflective of the review conducted on the information provided to-date:

- **Policies/Procedures:** The documented risk management framework, including policies and procedures that outline the roles, responsibilities, potential limits for the activity, reporting requirements, and ongoing risk assessment, has not been developed.
- **Due Diligence Documentation:** The due diligence documents did not provide sufficient detail or explanation to demonstrate management's understanding of the associated risks and decision-making process.
- **Risk Assessments:** The risk assessments, including a Vendor Risk Assessment, a FinTech specific review, and a contract review performed in March 2022, have not been updated to consider emerging risks from rapidly changing crypto market conditions. Documentation lacked support for key risk factors, the related controls, and the mitigating factors.
- **Contracts:** b4,b8 has not yet entered a signed contract with b4,b8 or b4,b8 to provide the b4,b8 Bitcoin Trading Platform. The bank's ability to assess risks are limited by the lack of any draft contracts that outline the bank and vendor's responsibilities.
- **Audit:** The internal audit risk assessment and plan did not include crypto-related activities.
- **Anti-money Laundering and Countering the Financing of Terrorism (AML/CFT):** b4,b8's specific AML/CFT policies, procedures, or controls for crypto activities have not been developed, and the lack of a contract limits the bank's ability to understand the roles of each party in monitoring and analyzing AML/CFT related risks.
- **Customer Interface/Disclosures:** b4,b8 provided draft screen images of the Bitcoin Trading Platform customer interface provided b4,b8 which would integrate into the bank's existing online banking platform, but has not provided bank-specific screenshots, demonstrations of the interface, or customer disclosures.

RESOURCES

The following FILs, along with their references and attachments, may serve as useful resources for the Board and management regarding risks and concerns arising from crypto assets offered by, through, or in connection with insured depository institutions:

- FIL-54-2014: Filing and Documentation Procedures for State Banks Engaging, Directly or Indirectly, in Activities or Investments that are Permissible for National Banks
- FIL-16-2022: Notification of Engaging in Crypto-Related Activities
- FIL 35-2022 Advisory to FDIC-Insured Institutions Regarding FDIC Deposit Insurance and Dealings with Crypto Companies issued on July 29, 2022
- FIL 01-2023 Joint Statement on Crypto-Asset Risks to Banking Organizations, issued on January 5, 2023
- FIL-29-2023: Interagency Guidance on Third-Party Relationships: Risk Management issued on June 6, 2023

Also, the *February 15, 1994 Interagency Statement on Retail Sales of Nondeposit Investment Products* may be a useful resource for Bank management when considering how to ensure clear and conspicuous language is provided to customers when offering nondeposit products.

ACTION REQUESTED

The Board and management should ensure appropriate risk and compliance management frameworks are in place prior to implementation of the proposed crypto-asset service to enable safe and sound operations and compliance with appropriate laws and regulations. The Board must ensure the matters outlined in this Letter are fully addressed to effectively mitigate risk to the institution and consumers.

The FDIC requests that the institution notify this office of any material developments related to the proposed crypto-asset service. The FDIC intends to perform a more in-depth review as management moves further along in the due diligence process. If the institution is considering engaging in additional crypto-related activities, we request notification that describes the activity in detail and provides the institution's proposed timeline for engaging in the activity.

Please email the documents electronically as a PDF through the FDIC Secure Email portal at SFMailRoom@FDIC.gov. Information about how to use secure email and FAQs about the service can be found at fdic.gov/secureemail. A copy of your communication can be forwarded to Case Manager [b8] and Review Examiner [b8]

[b8]

Sincerely,

\s\ Paul Worthing

Paul P. Worthing
Regional Director

Cc:

[b8]



Federal Deposit Insurance Corporation

25 Jessie Street at Ecker Square, Suite 2300
San Francisco, California 94105

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

Sent via secure email

October 29, 2024

Board of Directors

b4,b8

Subject: Crypto-Related Activities Supervisory Feedback Letter (Letter)

Dear Members of the Board:

This letter serves as supervisory feedback regarding **b4,b8** (Bank) crypto-related activities. Additional feedback may be warranted during future regulatory oversight activities (such as examinations, targeted reviews, visitations, and off-site reviews) or if circumstances change with crypto-related partnership.

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.

On May 3, 2022, The Bank notified the FDIC and the **b8** **b8** via electronic letter (letter) of its crypto-related activities related to two third-party partners: **b4,b8**

b4,b8 The letter noted that the Bank launched a credit card product called **b4,b8** in **b4,b8** with **b4,b8** The letter also noted that the **b4,b8** is an **b4,b8**

b4,b8 The letter also indicated a partnership with **b4,b8** for the following two services: a money market account for **b4,b8** end-users to send fiat dollars to and from the **b4,b8** Platform, and a proposal to originate open-end consumer loans to **b4,b8** collateralized by either securities or crypto-assets that an end-user purchases and holds on the **b4,b8**

On September 19, 2022, the FDIC notified the Bank that the review of the previously noted partnerships was ongoing and would be separated from the July 18, 2022, Safety and Soundness Examination. Furthermore, an update meeting was held with the Bank on January 26, 2023, to gather additional details and receive an update on both aforementioned third-party partners. The Bank has since terminated the **b4,b8** partnership.

b4,b8

Board of Directors
 Crypto-Related Activity
 Page 2

SUPERVISORY FEEDBACK SUMMARY

Crypto-related activities may pose safety and soundness and consumer protection risks to the institution and its customers. The types and levels of risks are dependent on the type of activity, implementation of the activity, and controls designed to mitigate risks. Examples of risks that may be present include, but are not limited to, compliance, legal, operational, third-party, and strategic. Facilitating customer crypto-asset trading alongside traditional banking products and services may also present heightened risk to the Bank's customers, such as:

- Confusion about the role of the financial institution in crypto-transactions;
- Lack of understanding about the nature and risks associated with crypto-asset products;
- Inability to differentiate between non-deposit products and traditional banking products, such as deposit accounts; and,
- Misunderstanding the applicability of Federal deposit insurance coverage.

The FDIC's *Advisory to FDIC-Insured Institutions Regarding FDIC Deposit Insurance and Dealings with Crypto Companies*, issued on July 29, 2022, via FIL-35-2022, may serve as a useful resource for the Board and management regarding risks and concerns arising from crypto-assets offered by, through, or in connection with, insured depository institutions. In addition, Part 328, Subpart B of the FDIC's Rules and Regulations, titled "False Advertising, Misrepresentation of Insured Status, and Misuse of the FDIC's Name or Logo," can apply to non-banks, such as crypto companies. (See 12 CFR Part 328, Subpart B.) Accordingly, the Bank should determine if its third-party risk management policies and procedures effectively manage crypto-related risks, including compliance risks related to Part 328, Subpart B.

The *Joint Statement on Crypto-Asset Risks to Banking Organizations* (Joint Statement), issued on January 3, 2023 by the FDIC, the Board of Governors of the Federal Reserve System, and the Office of the Comptroller of the Currency, and via FIL-01-2023, may also serve as a useful resource for the Board and management regarding crypto-asset risks. Events over the last few years across the crypto-asset sector have been marked by significant volatility and have exposed vulnerabilities in the sector. These events highlight a number of key risks associated with crypto-assets and crypto-asset sector participants that banking organizations should be aware of, including those outlined in the Joint Statement.

b4,b8 Supervisory Feedback Summary

While management has taken numerous actions, such as developing policies, progress reports, and underwriting requirements, certain risks related to the **b4,b8** were not fully evaluated or considered based on the documents provided by the Bank. The FDIC acknowledges that significant time has passed since the Bank performed due diligence on **b4,b8** and that the Bank has likely updated multiple risk assessments, monitoring reports, and overall structure of the partnership. However, Bank management needs to perform additional diligence to ensure the relationship is properly assessed and reflects the Bank's desired risk appetite with accompanying controls. This includes, but is not limited to, a variety of additional assessments that are needed around the **b4,b8** relationship such as the functionality of the

b4,b8

Board of Directors
Crypto-Related Activity
Page 3

b4,b8 and the account creation involved with **b4,b8**. In addition, various concerns were noted in the Compliance Risk Assessment that need management attention. The material growth of this partnership, coupled with the Bank's January 2023 downgrade of **b4,b8** partnership to a negative outlook, stresses the importance for the Board to reevaluate a number of areas associated with this partnership.

Most recently, the **b8** and **b4,b8**
b4,b8 which appears to be a related party of **b4,b8**, entered into a

b4,b8

b4,b8 Management should in its review, at a minimum, consider any related concerns with compliance, management, governance, and internal audit.

Additional information is noted below on the relationship between

b4,b8

DETAILED FINDINGS AND FEEDBACK

b4,b8 Corporate Governance

b4,b8

Various documents, including Bank management's New Partner Product Approval form, discuss a variety of roles and responsibilities in regards to the referenced parties above. However, a number of specific due diligence areas, such as Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT), Vendor Management, and Information Security reference **b4,b8** rather than the specific entity, party, or principal that may be providing the service. Bank management needs to perform additional due diligence to ensure the relationship is properly assessed and reflects the Bank's desired risk appetite with accompanying controls. For

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b4,b8

b4,b8

Board of Directors
Crypto-Related Activity
Page 4

example, further review and due diligence is needed to clarify which entities are involved with which services. Failure to properly identify specific critical parties involved in the legal partnership with the Bank may result in material disruptions or unknown deficiencies that could change the Bank's outlook on a relationship. Management can refer to FIL 29-2023 *Interagency Guidance on Third-Party Relationships: Risk Management* for examples of considerations in the area of due diligence.

In addition, management should revisit the Program Agreement with **b4,b8** with respect to the adjustable tangible net worth definition lacks details surrounding the fair value methodology to be used with a digital asset loan, as well as any definition for a digital asset loan. Failure to provide clear and understandable definitions could lead to a dispute or mismanagement of the program requirements.

b4,b8 Rewards Program

b4,b8

b4,b8

Board of Directors

Crypto-Related Activity

Page 5

In addition, the ambiguity around self-custody or a centralized custodian introduces potential for customer confusion, consumer harm, and legal uncertainty. For example, customers may be surprised by reward-related fees and crypto-asset transaction limitations if they are unexpectedly required to arrange a custody arrangement for their crypto-asset rewards with **b4,b8** or another party. By not clearly stating that the customer is required to arrange for custody of their crypto-assets at **b4,b8** or a related interest, the Rewards Agreement lacks clarity for communicating fees for converting, selling, or holding crypto-asset rewards, as well as any de minimis limitations when converting small rewards balances to U.S. Dollars. Furthermore, the Rewards Agreement lacks commentary regarding **b4,b8** or the Bank's potential rights to re-hypothecation arrangements that could allow the pledging of a user's crypto-assets for other services that the consumer has no interest in.

Due diligence and risk assessments performed by the Bank were silent regarding the previously noted items. Failure to understand and assess risks related to custody and re-hypothecation could lead to significant operational and legal risk if platform operations become disrupted, or if crypto-assets are receiving custody services that are different than what is disclosed to the end-user.

Potential Undisclosed Account Openings

Management's evaluation and due diligence of the **b4,b8** User Agreement² (User Agreement) between **b4,b8** and its applicability with the **b4,b8** credit card issued through **b4,b8** is insufficient. The Bank and the companies previously referenced may be incorrectly applying provisions from the User Agreement to **b4,b8** credit cardholders. Some of those provisions address the opening of **b4,b8** user accounts, as well as the applicability of certain laws and regulations, and account investigations.

Specifically, at the credit card application stage, the consumer must agree to **b4,b8** User Agreement. The User Agreement notes a variety of services that **b4,b8** provides such as account creation, customer oversight, and the various types of digital assets available on their platform. This User Agreement appears to represent an agreement between **b4,b8** and any users of **b4,b8** platform, regardless of whether the consumer requests a credit card or not.

However, the same User Agreement includes a brief section on credit cards. In short, the credit card section states that one's **b4,b8**

b4,b8

The discrepancies between the User Agreement and the Card Holder Agreement may create customer confusion. The **b4,b8** Card Holder Agreement lacks a variety of provisions present in the User Agreement that likely cover activities related to the crypto-rewards feature that

b4,b8

b4,b8

Board of Directors
 Crypto-Related Activity
 Page 6

b4,b8 or related entities provide to credit cardholders. Given that **b4,b8** appears to have applied a variety of the provisions of the User Agreement, which are not included in the **b4,b8** Card Holder Agreement, **b4,b8** or the Bank may be executing activities outside of the end-user's legitimate expectations. Thus, crypto-trading accounts and a variety of other services at **b4,b8** or their related companies may be opened or pushed down to credit cardholders without proper consent.

In correspondence with bank management, management stated their belief that the entirety of the User Agreement is applicable to the **b4,b8** Card. This is further supported by risk assessments and other documents referencing the User Agreement. The carve out in the User Agreement indicating that only the provisions of the Card Holder Agreement apply to the **b4,b8** Card represents a clear oversight that has not been considered or properly evaluated by bank management. Management needs to revisit the User Agreement and evaluate the language to determine what actions may be necessary to properly communicate the terms and conditions to end-users, especially with regard to the creation of crypto-asset accounts. Furthermore, the risk assessment's lack of consideration or discussion of this User Agreement and the applicability of the Card Holder Agreement is concerning and should be reconsidered.

Initial Compliance Risk Assessment

The Bank completed the Initial Compliance Risk Assessment prior to the launch of the **b4,b8** Card. While the Initial Compliance Risk Assessment appropriately identified some consumer protection weaknesses, the document does not clearly communicate the overall scope of review, nor does the document clearly explain that resource constraints at **b4,b8** contribute to some pre-implementation compliance weaknesses.

The Initial Compliance Risk Assessment presents conflicting information about the effectiveness of **b4,b8** compliance resources. The document states that there are resource weaknesses, but contradicts itself and says that there are not resource weaknesses. The Initial Compliance Risk Assessment includes a section about "Risks/Concerns," with a subsection for "Compliance Resources." The opening paragraph in this subsection states that **b4,b8** compliance program is lacking resources." The document then describes two other significant compliance concerns surrounding Equal Credit Opportunity and the Fair Debt Collection Practices Act. After highlighting the need for more resources, the subsection ends with a paragraph that contradicts the initial statement about resource needs, stating "[t]hese three Compliance concerns have been resolved. Throughout implementation, **b4,b8** has demonstrated that it has sufficient experience at hand and resources dedicated to the card product."

The discrepancy is again repeated in the section titled "Platform Resources Considerations." In this section, the Initial Compliance Risk Assessment states, **b4,b8** appears to have only one person dedicated to Compliance. **b4,b8** must ensure that additional Compliance resources are added to the **b4,b8** team." The next paragraph contradicts the first section by mentioning that **b4,b8** "has proved to have sufficient resources and staff in place to monitor and oversee regulatory compliance." After stating conflicting information about the adequacy of compliance resources, the document ultimately mentions that **b4,b8** plans to hire additional compliance staff.

b4,b8

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Oversight of vendor capabilities is an important part of an effective third-party vendor management program. It is important to clearly understand the quality and availability of a vendor's staffing resources. Without a clear understanding, and communication of a vendor's resource constraints, Board and management may not be able to proactively identify and mitigate the risk of consumer harm.

CONFIDENTIALITY NOTICE

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). Please notify the FDIC immediately if you receive a subpoena or other legal processing calling for the production of this Letter or a description of its content.

ACTION REQUESTED

- The Board needs to ensure these matters are fully addressed to effectively mitigate risk to the institution and consumers.
- Please review this Letter at the next Board of Directors meeting and document your review in the Board minutes.
- FIL-16-2022 requests that all FDIC-supervised institutions should promptly notify their respective Regional Director if the bank is intending to engage in any activities involving or related to crypto-assets. Management is reminded to notify the San Francisco Regional Director if the Bank is active with or considering any new partners involving crypto-related activities.
- Within 45 days of the date of this letter, please provide a written response to both the FDIC and the UDFI.

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 on how to use secure email and FAQs about the service can be found at <https://www.fdic.gov/secureemail/>.

b4,b8

Board of Directors
Crypto-Related Activity
Page 8

If you have any questions, please contact RMS Assistant Regional Director Debra Rhodes at

b6

, RMS Case Manager

b6,b8

DCP Assistant

Regional Director Matthew Sheeren at

b6

or DCP Compliance Technology

Specialist:

b6,b8

Sincerely,

**PAUL
WORTHING**

Digitally signed by
PAUL WORTHING
Date: 2024.10.29
08:32:02 -07'00'

Paul Worthing
Regional Director
San Francisco Regional Office

cc:

b8



July 22, 2024

Board of Directors

b4,b8

Subject: Response to Notification of Engagement in Crypto-Related Activities

Dear Members of the Board:

On August 11, 2022, Chief Financial Officer (CFO) **b4,b8** notified the FDIC of its activities with **b4,b8** and its related entities (collectively, **b4,b8**)¹, pursuant to FDIC's Financial Institution Letter -16-2022 Notification of Engaging in Crypto-Related Activities (FIL-16-2022), which 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 promptly notify the FDIC. Additional information was provided during the August 22, 2022, full-scope Safety and Soundness examination, and subsequently, in response to our requests, on January 5, 2023, and November 17, 2023. During a meeting on April 19, 2024, **b4,b8** (Bank) and **b4,b8** provided the FDIC and the **b8** **b4,b8** demonstration of the **b4,b8** website, an overview of **b4,b8** and an example of the **b4,b8** distributed ledger technology (DLT). This letter provides supervisory feedback on the Bank's crypto-related activities and its desire to move forward with Phase II.

BACKGROUND

b4,b8 a technology vendor, a **b4,b8** Bank board-approved broker-dealer², and a depositor of the Bank, is developing a private, permissioned DLT-based infrastructure for recordkeeping of fixed income instruments, parallel with existing recordkeeping methods on purchasing and selling securities through **b4,b8** aka "**b4,b8**". The DLT infrastructure allows market participants to initiate the origination, buying and selling of loans and securities, and record each transaction on a permissioned blockchain, with settlement

¹ **b4,b8** is the **b4,b8** name of **b4,b8** and its subsidiaries, who **b4,b8** provide a bond marketplace, and **b4,b8** services. **b4,b8** is an **b4,b8** Broker Dealer and member of FINRA, MSRB, and SIPC.

² A financial entity that is engaged with trading securities on behalf of its clients.

b4,b8

Page 2

occurring through traditional regulated channels (Fed wire, ACH, etc.). **b4,b8** is developing this capability on the **b4,b8** cloud, utilizing **b4,b8** blockchain technology.

b4,b8 Bank is piloting the new DLT infrastructure as a recordkeeping means for securities trading activity. Since the current legal and regulatory framework documenting ownership and settlement of asset transfers does not recognize assets recorded on blockchain, all transactions are currently settled, funded, and documented using existing processes, such as email, PDF/Word/Excel documents, in addition to **b4,b8** permissioned blockchain to document the transactions on the blockchain. The Bank stated it “expects to continue to process **b4,b8** bond and security transactions in a parallel dual process,”³ “with settlement occurring through traditional regulated channels (Fed wire, ACH, etc.),”⁴ and that **b4,b8** “is not involved in, nor does it facilitate clearing, settlement or trade execution,”⁵ The Bank expects to continue this dual process until legal and regulatory authorities recognize blockchain-based asset records.

The Bank has been directly purchasing private placement municipal bonds from municipalities, traditionally sourced through direct marketing efforts or referrals from municipal advisors and securities dealers. As explained in more detail below, **b4,b8** intends to host an informational website **b4,b8** with a link to **b4,b8** application portal for municipalities to apply for funding. The information will be recorded on **b4,b8** DLT as well as through the bank’s existing investment security process, which the bank states it plans to do “until legal and regulatory authorities recognize blockchain-based records as legally permissible, safe and sound, and with recognized ownership rights.”⁶ As noted below in Phase III, **b4,b8** intends to register as a municipal advisor and will receive a referral fee for any private placement municipal bond referrals to **b4,b8** from this website. Specifically, the Bank intends to implement the plans discussed above in three phases, which are further discussed as follows:

- Phase I (current): the Bank will respond to financing requests from issuers and municipal advisers ~~without using~~ **b4,b8** “white label” application portal or the Bank’s **b4,b8**
- Phase II (target in 2024): the Bank would use **b4,b8** “white label” application portal to buy and sell muni debt for its own account only. The Bank would also launch its **b4,b8** which would provide information only to municipal issuers and their financial advisers, and contain a link to **b4,b8** “white label” application portal.
- Phase III (target in 2025): the Bank would use the **b4,b8** website to connect municipal issuers to various insured institutions, and the insured institutions would then purchase the issuers’ municipal bonds using **b4,b8** “white label” application portal. The Bank would receive a referral fee for this service. The Bank has determined this activity would require it to register as a Municipal Advisor in order to

³ See Letter from Bank to FDIC dated August 10, 2022, page 2.

⁴ Ibid

⁵ See Bank submission to the FDIC dated November 16, 2023, “0. FDIC Attachment – Additional Information – Response,” page 5.

⁶ See Letter from Bank to FDIC dated August 10, 2022, page 2.

advise municipalities on municipal debt issuance or refer issues to broker/dealers for underwriting and sale.

SUPERVISORY FEEDBACK

The FDIC is providing the following feedback to the Bank on its plans to move forward with Phase II, based on its understanding of the scope as summarized above and its assessment of the information provided. The feedback is also with the understanding that management will continue the traditional recordkeeping process with the broker-dealer until all necessary regulatory approvals have been obtained to use blockchain technology for recordkeeping and documenting securities activities. The FDIC requests that the Bank 1) notify the FDIC if the Phase II scope of activity the bank intends to engage in is different than that summarized above, and 2) re-engage with the FDIC for supervisory feedback in advance of implementation of Phase III. Considerations for the Bank to evaluate as it moves forward with plans for Phase II include the following:

Governance and Legal Considerations:

Code of Ethics

The Bank should strictly adhere to its Code of Ethics by annually reporting and documenting insider involvement with b4,b8 to ensure transparency. In particular, the Bank should place increased attention to follow its Board-approved Code of Ethics Policy when evaluating and approving activities that involve insiders, to ensure strong Board independence, as individuals have personal interests and investments in b4,b8 Board minutes and supporting documents noted that a senior executive officer with an ownership interest in b4,b8 b4,b8 has led discussions or presentations on the topics involving b4,b8 which may not be consistent with the Bank's Code of Ethics Policy.

Supervisory Consideration: The Board should re-evaluate the b4,b8 relationship and ensure that it conforms to the Bank's Code of Ethics Policy.

Securities Regulation

b4,b8 Bank should ensure compliance with federal and state securities laws governing the Phase II transactions. The regulatory landscape surrounding blockchain technology is still evolving, and changes in regulations or legal interpretations could affect the legality and/or compliance requirements of b4,b8 Bank's use of b4,b8 DLT technology provided through b4,b8 Bank should continue to closely monitor b4,b8 consultation with its primary federal regulators, such as the SEC or FINRA, regarding the permissibility on using blockchain technology for recordkeeping and documenting municipal securities activities.

Supervisory Consideration: Management should stay abreast of federal and state securities laws governing transactions involving blockchain technology.

Contract Review

Areas within the [b4,b8] (Agreement) signed on April 29, [b4,b8], between [b4,b8] Bank and [b4,b8] should be revisited. A number of key areas appear to lack specific details, such as roles and responsibilities, additional services provided, and specific technical expectations. The following are specific examples that merit increased management attention:

- **Technical Specifications:** This section within the Agreement is limited to the Bank being able to request details on [b4,b8] platform, rather than the Bank being able to define specific requirements that meet the Bank's risk tolerances. Further clarification could include areas such as the Bank's technical specification requirements for the platform and operation, including permissioned ledgers, delivery methods, installation/integration procedures, test plans, acceptance criteria, and version management.
- [b4,b8] The Agreement lacks any details that reference how [b4,b8] may use third parties (or fourth parties to the Bank) to help administer software and hardware for the DLT implementation. This includes how [b4,b8] and [b4,b8] will interact as well as retain responsibility in maintaining a system of record for the municipal bonds and loans.
- **Data Retention and Access:** There appear to be no provisions within the Agreement that allow the Bank to access to the data submitted through the [b4,b8] website, or specific requirements for how [b4,b8] will be responsible for protecting, encrypting, storing, or handling that data.

Furthermore, while not specifically requested, management should initiate a formal contract review if one has not commenced to ensure that the Bank's rights are properly measured, monitored, and controlled.

Supervisory Consideration: Management should revisit their contractual arrangement with [b4,b8] and complete contract review to ensure that the terms and conditions of the contract protect the Bank's rights with respect to the service, and all risks and responsibilities of the parties have been appropriately considered.

Third-Party Oversight

Based on the information provided by Bank management, further due diligence and risk evaluation should be considered with respect to third parties, including [b4,b8] [b4,b8]. This is based on inconsistencies noted in the [b4,b8] document, coupled with limited details surrounding the overall process for what information is retained with [b4,b8] and [b4,b8] infrastructure. It is unclear which entity is responsible for providing governance and maintaining the system of record (the Bank or a third party). This should be clearly reflected in contracts between all parties (including users of the Bank's platform in Phase II). Also, further due diligence of the [b4,b8] reports

should be conducted as well as validation and testing around the potential implementation of a distributed ledger. In addition, due diligence reviews completed on all third parties including registered broker-dealers should be further enhanced to ensure all risks have been considered, including any prior regulatory events that may have an impact on the services provided by all third parties.⁷

While the current risk to the Bank is somewhat mitigated as the Bank is relying, and will continue to rely, on traditional documentation means for securities transactions, management should begin to perform further evaluation of the relationship between b4,b8 role in Phase II, as well as b4,b8 role in Phase III, if management's desire remains to move recordkeeping services to a distributed ledger platform.

Supervisory Consideration: As the Bank determines to move forward to Phase II, as well as evaluates potential risks related to Phase III implementation, management should conduct appropriate risk assessments and additional due diligence to understand all third party risks involved. This process should help ensure that each party involved in the proposed activity is clearly described with accompanying due diligence necessary to measure, monitor, and control the potential risks related to this structure.

CONFIDENTIALITY NOTICE

This Letter is confidential and may not be disclosed or made public in any manner under Part 309 of the FDIC's Rules and Regulations (12 CFR Part 309). Please notify the FDIC immediately if you receive a subpoena or other legal process calling for the production of this Letter or a description of its content.

ACTIONS REQUESTED

The Board should review this Letter at their next meeting and document their review in the minutes. We request a written correspondence within 45 calendar days of receipt of this Letter that address the following areas:

- Actions in relation to Supervisory Considerations;
- Actions in relation to new risk identification and controls for the subject; and,
- Plans and timelines for implementing Phase II.

In addition, the FDIC requests that the Bank re-engage with the FDIC for supervisory feedback in advance of implementation of Phase III.

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 on how to use secure email and FAQs about the service can be found at <https://www.fdic.gov/secureemail/>.

⁷ The bank's due diligence reports for b4,b8 did not include consideration of prior regulatory events including consent orders related to AML/CFT and breaching fiduciary duties in b4,b8

b4,b8

If you have any questions, please contact RMS Case Manager
or DCP Review Examiner

b8

b8

Sincerely,

PAUL
WORTHING

Digitally signed by
PAUL WORTHING
Date: 2024.07.22
18:24:48 -07'00'

Paul P. Worthing
Regional Director

Cc:

b8

OFFICE MEMORANDUM

Federal Deposit Insurance Corporation

DATE: 07/24/2024

To: David Wong
Assistant Regional Director

From: **b8**
Case Manager

Subject: **b4,b8** Discussion

Re: **b4,b8**

Meeting Date: 7/24/2024 2:00 PM
Location: Microsoft Teams Meeting

Participants:

b8 (FDIC Case Manager)
b8 (FDIC Data Scientist)
b4,b8 (**b4,b8** COO)
b4,b8 (**b4,b8** CFO)
b4,b8 (**b4,b8** CEO)

Notes

Before the FDIC San Francisco Region issue the feedback letter to **b4,b8** a meeting was held, as noted above, to verbally discuss the feedback with the Bank. The following items were discussed during the meeting:

Scope of the Feedback

Feedback is specifically on **b4,b8** desire to move forward with Phase II.

Findings Based on Review of the Documents Provided:

1. Code of ethics: Strictly adhere to bank's Code of Ethics Policy. More specifically, insiders with personal interest in **b4,b8** during Board meetings. The recusal of people with potential conflict of interest during the meetings should also be documented in minutes.
2. Management should continue to stay abreast of federal and state securities laws governing transactions involving blockchain technology

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3. Contract: Management should revisit contractual arrangement with [b4,b8] and complete contract review to ensure the terms and conditions protect the bank's rights / in the bank's best interest.
4. Third Party Oversight: on [b4,b8]
Inconsistencies noted in [b4,b8] Requirements and Systems Development document--unclear which entity is responsible for providing governance and maintaining the system of records.

Actions required in the feedback letter:

1. Written response within 45 calendar days of the receipt of this letter to address:
 - a. Actions in relation to Supervisory Considerations
 - b. Actions in relation to new risk identification and controls
 - c. Plans and timelines for implementing Phase II
2. Re-engage with the FDIC for supervisory feedback before implementation of Phase III.

Bank Management Response

Management was receptive to the feedback and committed to sending a response within 45 days. After the meeting, the letter was emailed to the bank, and a copy was forwarded to WDFI. WO was informed, and [b7(E)] was updated accordingly.

See next page for the feedback letter



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

December 23, 2022

Board of Directors

b4,b8

Subject: Third-Party Crypto-Asset Activity

Dear Members of the Board:

In response to Financial Institution Letter (FIL), FIL-16-2022, *Notification of Engaging in Crypto-Related Activities*, on September 12, 2022, Executive Vice President (EVP) **b4,b8** submitted a notification of the Bank's intent to work with **b4,b8** to develop an application programming interface (API) that would allow customers to buy, sell, and hold crypto assets through the Bank's digital banking platform. Case Manager **b8** also held a discussion with CEO **b4,b8** and EVP **b4,b8** on November 22, 2022, regarding the proposed crypto-related activities. As discussed during the call, the Bank has created test accounts to assist **b4,b8** in API development, but management does not intend to offer this type of service to customers.

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 crypto-related activities. Accordingly, the FDIC requests the Bank provide the information in the attached list by January 23, 2023. 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 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.

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 **b8** at **b6,b8** or Regional Examination Specialist **b8** at **b6,b8**. 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 email address: CHIMailRoom@fdic.gov.

Sincerely,
Gregory P. Bottone
Regional Director

Enclosure – Crypto-Asset Activity Request List

cc:

b8

REL0000042371

Crypto-Asset Activity Request List

1. Risk assessment of the planned activities.
2. Documentation of Board and committee discussions and/or approvals.
3. Information on which entities will perform trade execution and custody.
4. Due diligence performed on all third parties involved.
5. Written agreements or contracts with [b4,b8] any crypto asset exchange, and crypto asset custodian, as well as any documentation noting the Bank's contract review.
6. If not detailed in contracts, details regarding costs and fees associated with the project.
7. Any policies governing these activities and development activities, including any new or draft policies or procedures.
8. Detailed description of the bank's involvement and role in development and testing.
9. Detailed description of the nature of the test accounts, their location within the Bank's IT environment, supporting controls, which users will perform testing, whether customers will be included in testing, and any transactions executed through these accounts.
10. Description of any third party's role in development and testing.
11. Detailed description of connectivity to bank systems, including data flows to/from banks systems and any third parties. Detail the information or functionality being leveraged by the API, including read and write functions.
12. Description on how funds would flow between various third parties.
13. Project plan and relevant project management documentation. Include detailed description and information on what is being developed, development progress, and expected completion date.
14. Bank policies and procedures to assess development measures (such as secure design, static and/or dynamic code scanning, quality assurance, and testing) and API configurations.
15. Description of how APIs are included in the bank's security framework.
16. Any documentation to support how the Board or committee monitors the project's budget and schedule.
17. A description of how the product/service would be made available to customers (e.g. through the bank's mobile application/online banking platform or through a customer interface with [b4,b8] and whether and how customers or customer funds are or will be involved in test accounts and testing.
18. Drafts of any disclosures that will be provided to customers relating to the activity and plans on where/when disclosures will be presented to customers.



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

March 3, 2023

Board of Directors

b4,b8

Subject: Review of **b4,b8** Third Party Crypto-Asset Activity

Dear Members of the Board:

This office has reviewed your letter dated January 25, 2023, and the corresponding documents provided in response to the FDIC Crypto Asset Activity Request List. Pursuant to Financial Institution Letter (FIL) 16-2022, *Notification of Engaging in Crypto-Related Activities*, issued on April 7, 2022, this letter provides supervisory feedback relative to the consumer protection and risk management considerations of the proposed crypto-related activity. Please note that 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).

SCOPE OF THE REVIEW

The scope of the review focused on the bank's plans to work with **b4,b8** to develop an application programming interface (API) that would allow customers to buy, sell, and hold crypto assets through the bank's digital banking platform. Currently, the bank stated it has not yet determined if it will offer this service and has only provided certain information available to-date from the FDIC documentation request dated December 23, 2022. Therefore, the scope of this supervisory feedback is limited to the proposed API development activities and does not reflect comprehensive feedback on all safety and soundness and consumer protection considerations that may be applicable to the proposed crypto-asset activity. The assessment focused on the bank's third party due diligence and information security framework related to API development and the steps taken by the bank to evaluate and mitigate the risks of granting third-party access to banking systems. This letter provides supervisory feedback you should address as you continue to pursue and evaluate this product.

SUPERVISORY FEEDBACK

The information provided to the FDIC on the proposed third-party API development with **b4,b8** indicates management has completed minimal risk assessment and due diligence activities, which were limited to in-person conversations with **b4,b8** and a review of **b4,b8** Systems and Organization Controls 2 (SOC 2) audits. The Board and management should ensure comprehensive due diligence is performed and appropriate risk frameworks are in place prior to granting core banking system access to a third party. Ensuring that an appropriate

framework is in place that provides for a comprehensive assessment of the risks presented by the activity will help management better identify the risk to the institution and its customers, ensure those risks align with the bank's overall strategic plan and risk appetite, and inform the development of risk mitigation strategies.

In particular, the proposed API development activities should be considered within the context of the bank's information security program. This includes understanding potential information security implications such as **b4,b8** access to the banking organization's systems and to its confidential information. Management should demonstrate how the proposed API development activities are appropriately addressed by the bank's information security program prior to commencing the activity. As set forth in Appendix B to Part 364 of the FDIC Rules and Regulations, the Interagency Guidelines Establishing Information Security Standards require a bank, in part, to:

- Ensure the security and confidentiality of customer information;
- Protect against any anticipated threats or hazards to the security or integrity of such information;
- Identify reasonably foreseeable internal and external threats that could result in unauthorized disclosure, misuse, alteration, or destruction of customer information or customer information systems;
- Assess the likelihood and potential damage of these threats, taking into consideration the sensitivity of customer information;
- Assess the sufficiency of policies, procedures, customer information systems, and other arrangements in place to control risks; and,
- Design its information security program to control the identified risks, commensurate with the sensitivity of the information as well as the complexity and scope of the institution's activities.

In addition to performing a comprehensive risk assessment on the proposed crypto-asset activity, management should complete due diligence on **b4,b8** in accordance with the bank's vendor management policies and procedures. This due diligence should involve a review of all available information about the third party, focusing on the entity's financial condition, its specific relevant experience, its knowledge of applicable laws and regulations, its reputation, and the scope and effectiveness of its operations and controls. In addition, management should consider the extent to which the third party uses controls to limit access to the banking organization's data and transactions, such as multifactor authentication, end-to-end encryption, and secured source code management.

We request that the bank provide a response to the above within 45 days. We also request that the bank notify this office of any material developments related to the proposed testing of the crypto-asset buy, sell, and hold service. In its September 12, 2022 notification letter to the FDIC, the bank stated it currently does not have plans to roll out any crypto services to customers. If, and when, the bank plans to offer crypto-asset buy, sell, and hold services to its customers, we request that you notify this office prior to implementation. As a result, we may request that the bank provide information necessary to allow us to assess the safety and soundness, consumer protection, and financial stability implications of that activity, as stated in FDIC FIL-16-2022. If the bank considers engaging in additional crypto-related activities, we

Board of Directors

b4,b8

request notification that describes the additional activity in detail and provides the institution's proposed timeline for engaging in the activity, consistent with FDIC FIL-16-2022.

If you have any questions, please contact Case Manager **b8** at **b6,b8** or Regional Examination Specialist **b8** at **b6,b8**. 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 email address: CHIMailRoom@fdic.gov.

Sincerely,
Gregory P. Bottone
Regional Director

cc:

b8



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

October 28, 2022

Board of Directors

b4,b8

Subject: April 4, 2022 Report of Examination (Report)

Members of the Board:

Enclosed is a copy of the subject Report prepared by the Federal Deposit Insurance Corporation (FDIC). The Report includes the findings of concurrent Information Technology (IT) and Bank Secrecy Act/Anti-Money Laundering examinations. Please thoroughly review the Report and document such review in the board minutes.

The overall condition of the bank remains satisfactory. Asset quality remains satisfactory with total adversely classified assets of **b4,b8** accounting for **b4,b8** of Tier 1 Capital plus the ALLL. While overall underwriting and credit administration practices are generally adequate, Board decisions pertaining to digital asset-related lending exhibit an elevated risk appetite. Digital asset lending is a specialized area and the Board needs to develop comprehensive lending guidelines, portfolio limits, and accounting considerations to ensure credits are appropriate underwritten and administered.

The Report notes certain due diligence activities conducted for the **b4,b8** loans extended to digital asset-related technology firms, yet it also highlights areas to improve underwriting and administration of these loans. In addition, the loan to **b4,b8** is secured by Bitcoin and aspects of the collateral control and its ongoing perfection present uncertainties. Collateral safekeeping is facilitated by an affiliate of the borrower, highlighting an inherent conflict of interest and the nature of cryptoassets means that the recovery of the property following an improper transfer is difficult or impossible. The questionability in collateral control and its perfection, along with concerns noted within the Report, present weaknesses that warrant management's attention. Any future renewals should:

- clearly identify and assess the primary repayment source with a comprehensive financial analysis of the borrower itself;
- obtain documentation to establish the true ownership of the collateral; and
- arrange for independent and bankruptcy-remote collateral safekeeping.

If left uncorrected, these potential weaknesses may result in the deterioration of the institution's credit position at some future date.

Capital protection remains satisfactory for the risk profile. However, [b4,b8] are noted related to temporary capital injections at the end of the third and fourth quarters of 2021. While the temporary capital injections were intended to offset the timing of temporary large deposits, a robust capital planning framework provides for capital at sufficient levels to manage growth and address emerging needs. Recommendations to formalize minimum capital levels and dividend practices are provided on the *Examination Conclusions and Comments* pages of the Report, and the Board is reminded that capital that is temporary in nature does not qualify for regulatory capital.

Board and management oversight is adequate. Management continues to pursue growth opportunities by incorporating digital asset-related activities. Consistent with Financial Institution Letter 16-2022, *Notification of Engaging in Crypto-Related Activities*, please provide this office with information necessary to allow a comprehensive assessment of the safety and soundness, consumer protection, and financial stability implications of the digital asset-related activities the bank engages in or is planning to engage in.

Bank Secrecy Act and Anti-Money Laundering compliance is satisfactory; however, management failed to file eight currency transaction reports, [b4,b8] [b4,b8] Additionally, a recommendation to strengthen management's ongoing customer due diligence monitoring procedures is noted. IT operations are satisfactory. One recommendation is detailed within the *Information Technology and Operations Risk Assessment* section of the Report to improve audit tracking procedures.

Following your review of the Report, please provide a written response to the above address or the FDIC Secure Email portal at ChiMailroom@fdic.gov within 45 days after the date of this letter as to the actions taken or planned with respect to the matters discussed above and within the Report.

Enclosed is an invitation to participate in the FDIC's post-examination survey process. Please refer to the invitation for details and instructions.

This letter and its contents (including attachments) are confidential and intended only for the bank's internal use. The disclosure of such confidential supervisory information is governed by Part 309 of the FDIC Rules and Regulations.

Please contact Case Manager [b8] at [b6,b8] or [b8], if you have any questions or comments regarding the Report or this correspondence.

Sincerely,
Michelle Ogren
Acting Deputy Regional Director

Board of Directors

b4,b8

Page 3

Enclosures: Report of Examination
Post-Examination Survey Letter

cc:

b8

Federal Reserve Bank of Chicago

OFFICE MEMORANDUM

Federal Deposit Insurance Corporation

DATE: April 18, 2023

To: Bank File (RADD)

From: **b8**
Case Manager

Subject: **b4,b8** FBO and FIL-16-2022 Update Discussion with **b4,b8**
Management via MS Teams on April 11, 2023

Re: **b4,b8**

Prior Events Timeline

- 4/25/2022:
 - **b4,b8** President **b4,b8** emailed CM **b8** to understand regulatory expectations for offering “s **b4,b8** **b4,b8**” to **b4,b8**
- 5/23/2022:
 - **b4,b8** President **b4,b8** emailed CM **b8** about also potentially offering a FBO deposit account to **b4,b8**
- 6/13/2022:
 - Acting ARD Justin Shaffer emailed draft **b4,b8** Crypto-Related Activity Memo to WO.
- 6/21/2022:
 - CM **b8** held call with **b4,b8** President **b4,b8** to ask clarifying questions as requested by RO.
- 7/7/2022:
 - Acting ARD Shaffer emailed WO a Follow-up Memo and Draft Letter to send to **b4,b8** with the recommendation that the prospective banking relationship between **b4,b8** be considered as “crypto-related activities” under FIL-16-2022.
- 7/7/2022:
 - Senior Examination Specialist Sumaya Muraywid replied to email the same day to communicate that Memo and Letter have moved onto RMS Senior Deputy Director Rae-Ann Miller for her concurrence.
- 7/21/2022:
 - Acting ARD Shaffer requested the assignment of RO legal assistance on **b4,b8** pending crypto-related activity notification. Senior Regional Attorney Lorraine Sumulong was assigned the next day.

- 8/1/2022:
 - SES Muraywid replied to RO stating that Senior Deputy Director Miller concurred with region's position that the activity is in scope and replied with revised letter to the bank.
- 8/17/2022:
 - Letter sent to [b4,b8] President [b4,b8] informing the bank that if it intends to pursue prospective banking relationship (FBO account) with [b4,b8] then the bank would need to provide the FDIC with a formal notification as requested by FIL-16-2022.
- 9/8/2022: President [b4,b8] tried to send FIL notification documentation via email to Acting CM [b8] but the file size was too large. Acting CM [b8] then set up EFX-FDIC Connect session on 9/9/2022 to receive the bank's documentation. The bank's provided documentation has been copied to the Retail Emerging Technology Working Group/CryptoSupervisoryReviews SharePoint site. Finally, bank provided documentation was emailed to SFMailRoom@FDIC.gov on 4/17/2023 to be uploaded to the institution's Correspondence folder in RADD.

4/11/2023 Meeting Attendance

- [b4,b8]
 - President a [b4,b8]
 - Chief Risk Officer [b4,b8]
 - Chief Operations [b4,b8]
 - Chief Compliance Officer [b4,b8]
 - BSA Officer/Deposit Compliance Officer [b4,b8]
 - Chief Business Development Officer [b4,b8]
- FDIC
 - Case Manager [b8]
 - Senior Examination Specialist [b8]

4/11/2023 Meeting Notes (Management responses in bold)

FDIC Questions:

- Has [b4,b8] opened the FBO account for [b4,b8]? If so, when was the account opened?
 - Yes, COO [b4,b8] stated the account was opened in April 2022 but it was dormant (no funds or activity) until November 2022.
 - CCO [b4,b8] also stated that since initial funding in November 2022, the account has not operated as a true FBO account and instead has been [b4,b8] commercial deposit funds comingled with [b4,b8] customer funds.
 - CRO [b4,b8] stated that bank management has the goal of the account solely being an FBO account structure by May 1, 2023, but the institution is still in discussions with [b4,b8] regarding expectations, and processes as well as finalizing agreements between [b4,b8] and [b4,b8]
- What is the current balance of [b4,b8] FBO account? Does the total balance vary a material amount day-to-day?

- CCO **b4,b8** stated that the current balance of the account is approx. \$360,000 and that the typical balance over the past few months has been \$1.8 million.
 - President **b4,b8** agreed that balance can vary widely day by day but stressed a few times that management feels that the overall risk to the institution is limited due to size of the activity with the average account balance being 0.2% of the institution's total assets.
- How many **b4,b8** customers make up this **b4,b8** FBO account?
 - CRO **b4,b8** stated that there are currently funds from 546 **b4,b8** customers within the account at **b4,b8**
- Has **b4,b8** encountered any hiccups or issues since opening the account?
 - CRO **b4,b8** stated that the biggest hurdle has been getting **b4,b8** to understand **b4,b8** expectation that the account truly be a FBO account which includes the corresponding recordkeeping and reporting requirements associated with such as structure.
- Has the institution performed any additional due diligence or risk assessments of **b4,b8** beyond the documentation provided to the FDIC on September 9, 2022?
 - CRO **b4,b8** stated that the bank completed due diligence of **b4,b8** at the onset and likely provided that documentation in September 2022 but the institution has not yet instituted a formal ongoing and recurring risk assessment process of **b4,b8** CRO **b4,b8** anticipates that the bank would formulate a recurring annual risk assessment of **b4,b8** once the account is operating as solely a FBO account.
 - President **b4,b8** noted that the bank has likely obtained updated financials from **b4,b8** as well as an updated listing of products and service offerings since September 2022.
 - BSA Officer **b4,b8** said she is currently in the process of doing a new money services business (MSB) risk assessment for **b4,b8** but this process has been more intensive than normal because **b4,b8** is the bank's only MSB and given **b4,b8** digital asset focus.
 - Chief Business Development Officer **b4,b8** added that **b4,b8** reviews and is contractually required to review all **b4,b8** marketing or communications materials that mention **b4,b8**
- Has management obtained a legal opinion in regards to the permissibility of this activity?
 - President **b4,b8** stated that the bank has engaged **b4,b8** to review and approve all agreements the bank has with **b4,b8** and the bank has also contracted with **b4,b8** to provide additional consulting within this space.
- During an Offsite Review Program related discussion last week (4/7/2023) with CM **b8** CEO **b4,b8** mentioned that the bank has received a fair amount of interest from digital asset related companies looking for financial institutions. Can you please provide an update regarding these prospective customers?
 - President **b4,b8** stated that the **b4,b8** Board of Directors approved the addition of up to three additional digital asset related entities at the prior monthly Board meeting.

- President [b4,b8] noted that the bank does not intend on becoming a “crypto bank” but sees the commercial benefit of providing commercial banking services to businesses that can meet the institution’s risk management standards.
- CM [b8] asked the institution to inform him of any future decisions to onboard crypto-related customers even if the bank only intends to provide more traditional commercial banking services.

[b4,b8] Questions:

- **At this time does the FDIC have any supervisory feedback concerning our discussion today or the documents provided by [b4,b8] in September 2022?**
 - CM [b8] told bank management that he was unable to provide any supervisory feedback at this time but one of the main purposes for this call is to better inform the FDIC’s development of a forthcoming letter to the institution providing initial supervisory feedback and potentially some additional request items.
- **Can FDIC provide an estimated date on when the aforementioned letter will be provided to the institution?**
 - CM [b8] stated that he was unable to provide an estimated timeframe given the numerous parties involved in the development of the letter but that it is his intention to provide it to the institution as soon as possible.



Federal Deposit Insurance Corporation
Division of Risk Management Supervision
Division of Depositor and Consumer Protection
1100, Walnut Street, Kansas City, Missouri 64106

Kansas City Regional Office

Phone (816) 234-8000

October 12, 2022

Board of Directors

b4,b8

Subject: Third-Party Crypto-Asset Activity

Dear Members of the Board:

On September 8, 2022, we received **b4,b8** (the Bank) notification of the Bank's intent to offer customers the ability to buy, sell, and hold various crypto-assets through the Bank's **b4,b8** banking platform by **b4,b8** in conjunction with a third party crypto-asset partner 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 the Board has not yet selected a crypto-asset partner; however, on September 20, 2022, President **b4,b8** provided draft agreements involving the perceived leading candidate, **b4,b8** in association with **b4,b8** **b4,b8**

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 30, 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.

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).

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If you have any questions, please contact Case Manager [b8] at [b6,b8] or Review Examiner [b8] at [b6,b8]. 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 (securemail.fdic.gov) using the following e-mail address: KCMailroom@FDIC.gov.

Sincerely,
James D. LaPierre
Regional Director

cc: [b8]

Request List: Crypto-Asset Purchase and Sale Through Institution with Third Party

1. Contracts, including any draft contracts that bank is reviewing/considering.
 - Note: You do not need to provide draft contracts previously submitted in President **b4,b8** September 20, 2022, email, unless these documents have since been revised or finalized.
2. Overview of the contracting process (e.g., who is/was involved in the review, analysis, negotiation, 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, crypto-asset custodian and crypto-asset trading platform, and any other related or third party, including trading/liquidity providers or technology service providers.
6. The bank's permissibility analysis and determination with respect to the activity.
7. Bank's analysis of Securities and Exchange Commission Staff Accounting Bulletin 121 and its applicability.
8. Cost-benefit analysis for the activity, including costs associated with identifying, managing, and controlling risks (e.g., audit, policy, insurance, vendor management, legal counsel, etc.).
9. Project plan for the activity.
10. List of crypto-assets that will be available to buy/sell, due diligence and risk analysis for such crypto-assets, and policies and procedures that govern the selection process and criteria.
11. Vendor management due diligence documentation and analysis related to third parties (e.g., **b4,b8** others) and **b4,b8** including audits, financials, insurance, complaints, etc.
12. Detailed description of **b4,b8** role, including how the service will interface and integrate with **b4,b8** and bank systems, technology solutions, and data.
13. Description of what happens to customers' accounts or crypto-asset holdings if the bank does not continue or cancels offering the services provided by the selected crypto-asset provider, or if the third party cancels or fails to perform under the contract.
14. Description of any fees that will be charged to customers related to the activity, and how they will be calculated. If **b4,b8** is selected as the crypto-asset provider, provide information on what the transaction size refers to in the draft **b4,b8** agreement when determining \$/% fee amount. Also, describe if and how fees are split amongst the bank and any third parties involved in the activity.
15. Description of any transaction limitations imposed by the crypto-asset partners (e.g., **b4,b8** *et al.*) or the bank on the amount of the crypto-asset a customer may purchase or sell (e.g., daily, weekly, monthly).
16. Description of the methodology that determines the price customer pays to the crypto-asset provider for the crypto-asset. This includes providing an explanation of how the market price is determined and the process used to calculate the spread, including information on the amount of the spread.
17. Customer agreements (other than previously provided unless since modified), 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).
18. Marketing materials, press releases, internal scripts, educational materials, and any other publicly distributed information related to the activity (draft or proposed) to be used by the bank or third parties. 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 customers by, or through, the bank in connection with activity. Also, a live demonstration of the user interface of the online banking or mobile application customer experience may be requested during the review of this activity.

19. Please describe the process the bank will use to allow **b4,b8** Support to provide phone, live chat, and email support to the bank's participating customers, including the process in the draft contract that states, "I **b4,b8** **b4,b8**" Also, include any information related to controls if any, the bank will use to monitor the support being provided to bank customers by **b4,b8** for this service.
20. Any other due diligence materials.
21. Describe how this crypto-asset activity fits into the bank's strategic plan and objectives of the board and actions that would be taken should the activity fail to achieve the objectives.
22. 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.
23. Board and committee minutes reflecting discussion, analysis, approval, and any documentation provided on the activity.
24. Risk assessment(s) related to the activity.
25. Internal training materials related to the activity.
26. Policies and procedures that will govern the crypto-related activity, including those related to consumer compliance and complaint resolution.
27. 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)).
28. Please describe the bank's plans with respect to considering crypto-asset balances when applying for a retail mortgage or other loan product that is reflected in slide 1 of the **b4,b8** **b4,b8** PowerPoint.
29. Please describe if any disclosures will indicate that FDIC deposit insurance will be available to any **b4,b8** customers for United States dollar funds held by the bank for the benefit of such customers.



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

Via Electronic Mail

March 8, 2024

b4,b8

Chief Executive Officer

b4,b8

Subject: Notification of Engaging in Crypto-Related Activities
Request for Additional Information

Dear **b4,b8**

On June 16, 2023, you notified the FDIC of **b4,b8** (Bank) engagement with **b4,b8** additional companies engaged in crypto-related activities in response to Financial Institution Letter 16-2022, Notification of Engaging in Crypto-Related Activities.

Based on our review of the information provided, and in light of inconsistencies identified at the prior examination between the described purpose and actual activities within the merchant processing function, additional information is needed to understand the activity. Please see the attachment for questions seeking clarification of the Bank's activities. Within 45 days of the date of this letter, please provide a response addressing each of the items, as applicable, and supporting documentation. Furthermore, if additional crypto-related companies have been on-boarded, or if the Bank is considering engaging with additional crypto-related companies, please provide a detailed description of the current or proposed activities.

If you have questions, please contact Division of Risk Management Supervision Assistant Regional Director Perissa Ali Clark at paliclar@fdic.gov or **b6** or Case Manager **b8** **b8** at **b8** or **b6,b8** or Division of Depositor and Consumer Protection Assistant Regional Director Matt Sheeren at msheeren@fdic.gov or **b6** or Review Examiner **b8** at **b8** or **b6,b8**. Documents can be sent electronically as a PDF through the FDIC Secure Email portal at 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/ **Paul P. Worthing**

Paul P. Worthing
Regional Director

cc:

b8

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

REL0000042376

Attachment – Additional Information Request

Please provide the following information for **b4,b8**

b4,b8 (collectively referred to as “Companies”):

1. Are any of the Companies’ deposits held at **b4,b8** owned by the customers or end-users of the Companies? If not, please explain how the source, use, and purpose are identified and confirmed.

If the answer is Yes, please see request items 2 – 6 below and provide a response addressing each of the items. If the answer is No, please provide a response indicating what services the Bank is providing to each of the Companies.

2. Any due diligence on each of the Companies provided by the Independent Sales Organization (ISO) that offered the partnership to the Bank.
3. Any risk assessments and due diligence performed by the Bank to supplement the ISO-provided risk assessments and due diligence.
4. A detailed description of the specific service the Bank is providing to each of the respective Companies.
5. If payments are involved, indicate what type (such as wire, ACH, etc.)
6. A spreadsheet detailing the following activities for each Company:
 - Month-end deposit balances during 2023
 - Month-end transaction volume (both incoming and outgoing) during 2023

Please provide the following additional information for **b4,b8**

7. A detailed description of the partnership with the bank, what activity the bank will perform, and what activity the entity will perform on the bank’s behalf
8. According to recent press reports, **b4,b8** has filed an application with **b4,b8** to **b4,b8**. To the extent possible, explain what, if any, impact this will have on your partnership with **b4,b8**

b8

From: Clark, Perissa Ali
Sent: Tuesday, March 28, 2023 11:10 AM
To: b8
Subject: Fwd: b4,b8 Divestiture Plan / SECURE MAIL
Attachments: b4,b8 Letter regarding Divestiture Plan 3.8.23.docx

Fyi.

Perissa Ali Clark
b6 mobile
Sent from iPhone

From: Ties, Nicholas F. <nties@FDIC.gov>
Sent: Tuesday, March 28, 2023 11:36:44 AM
To: Clark, Perissa Ali <PaliClark@FDIC.gov>
Cc: Worthing, Paul P. <PWorthing@FDIC.gov>; Muraywid, Sumaya A. <SMuraywid@FDIC.gov>; Macias, Sandra <SMacias@FDIC.gov>; Colohan, Patricia A. <PColohan@FDIC.gov>
Subject: RE: b4,b8 Divestiture Plan / SECURE MAIL

Hi Perissa – WO senior management reviewed and have cleared the region to issue the attached letter. Let us know if you have any questions. Thanks!

From: Clark, Perissa Ali <PaliClark@FDIC.gov>
Sent: Wednesday, March 8, 2023 3:52 PM
To: Ties, Nicholas F. <nties@FDIC.gov>
Cc: Worthing, Paul P. <PWorthing@FDIC.gov>; Muraywid, Sumaya A. <SMuraywid@FDIC.gov>; Macias, Sandra <SMacias@FDIC.gov>
Subject: RE: b4,b8 Divestiture Plan / SECURE MAIL

CONTROLLED//FDIC INTERNAL ONLY

Thank you so much, we are good with the changes. Our main goals were to (1) not require any more responses prior to divestiture off the bank's books and (2) keep the door wide open for comprehensive future review and potential criticism/compensation to the bank if warranted once the crypto was off the bank's books. Thanks again, PAC

From: Ties, Nicholas F. <nties@FDIC.gov>
Sent: Wednesday, March 08, 2023 10:57 AM
To: Clark, Perissa Ali <PaliClark@FDIC.gov>
Cc: Worthing, Paul P. <PWorthing@FDIC.gov>; Muraywid, Sumaya A. <SMuraywid@FDIC.gov>; Macias, Sandra <SMacias@FDIC.gov>
Subject: RE: b4,b8 Divestiture Plan / SECURE MAIL

Hi Perissa –

The WO has made a few minor edits to the version of the response letter you sent last week. If the SFRO is good with the edits, we'll send to b8 for her concurrence.

Thanks,
Nick

From: Clark, Perissa Ali <PaliClark@FDIC.gov>
Sent: Thursday, March 2, 2023 8:46 PM
To: Ties, Nicholas F. <nties@FDIC.gov>; Muraywid, Sumaya A. <SMuraywid@FDIC.gov>
Cc: Macias, Sandra <SMacias@FDIC.gov>; Figueroa Benjamin, Mariela <MaFigueroa@FDIC.gov>; Worthing, Paul P. <PWorthing@FDIC.gov>; [REDACTED] b8 [REDACTED] b8; Honjiyo, Lori M. <LHonjiyo@FDIC.gov>; [REDACTED] b8
Subject: FW: [REDACTED] b4,b8 Divestiture Plan / SECURE MAIL

CONTROLLED//FDIC INTERNAL ONLY

Hello, thank you for your feedback and revisions. We have tweaked the letter language slightly to put the onus on the bank to strengthen the documentation, and not require a response to or approval of the FDIC. Please advise if this letter is acceptable. Thanks much, PAC

From: Ties, Nicholas F. <nties@FDIC.gov>
Sent: Tuesday, February 28, 2023 12:55 PM
To: Clark, Perissa Ali <PaliClark@FDIC.gov>
Cc: Colohan, Patricia A. <PColohan@FDIC.gov>; Muraywid, Sumaya A. <SMuraywid@FDIC.gov>; Macias, Sandra <SMacias@FDIC.gov>; Figueroa Benjamin, Mariela <MaFigueroa@FDIC.gov>; Worthing, Paul P. <PWorthing@FDIC.gov>; [REDACTED] b8 [REDACTED] b8
[REDACTED] b8
Subject: RE: [REDACTED] b4,b8 Divestiture Plan / SECURE MAIL

Hi Perissa –

Thanks for the quick turnaround on the response letter based on our discussion last week. RMAS and WO legal have reviewed and attached are our suggested edits. When you get a chance, please review and let us know if you have any questions or further edits. Once we hear back and get the letter in its final draft form, we will run it up through Patti and Rae-Ann. Thanks!

Nick

From: Clark, Perissa Ali <PaliClark@FDIC.gov>
Sent: Friday, February 24, 2023 10:54 PM
To: Colohan, Patricia A. <PColohan@FDIC.gov>; Muraywid, Sumaya A. <SMuraywid@FDIC.gov>; Figueroa Benjamin, Mariela <MaFigueroa@FDIC.gov>; Macias, Sandra <SMacias@FDIC.gov>; Ties, Nicholas F. <nties@FDIC.gov>
Cc: Worthing, Paul P. <PWorthing@FDIC.gov>; Honjiyo, Lori M. <LHonjiyo@FDIC.gov>; [REDACTED] b8 [REDACTED] b8
Subject: RE: [REDACTED] b4,b8 - Divestiture Plan / SECURE MAIL

CONTROLLED//FDIC INTERNAL ONLY

Hello, thank you so much for the feedback on today's call. We appreciate your guidance and expertise in this matter.

As discussed, [REDACTED] b4,b8 holding of the crypto asset [REDACTED] b4,b8 began several years ago (prior to issuance of FIL-16-2022 on crypto notifications), and the Bank previously filed a Part 362 notice for FDIC approval to continue holding [REDACTED] b4,b8 on its

books. The notice was deemed insufficient, and the bank withdrew the Part 362 notice. After much discussion and moral suasion, Bank management decided to divest of [b4,b8] and submitted the divestiture plan (versus re-filing the Part 362 notice). The divestiture plan is not considered a formal filing or application, and no FDIC approval is required. We plan to fully assess the Bank's divestiture of [b4,b8] and compliance with related laws and regulations at future examinations and visitations of [b4,b8]

Attached is the revised letter. Please review and advise if WO concurs with the SF Region sending the letter.

Please feel free to contact us if you have any questions or comments.

Thank you and regards,

Perissa Ali Clark

Assistant Regional Director-RMS

San Francisco Regional Office

Office: [b6]
Cell: [b6]

From: Muraywid, Sumaya A. <SMuraywid@FDIC.gov>

Sent: Tuesday, February 21, 2023 1:50 PM

To: Clark, Perissa Ali <PaliClark@FDIC.gov>; [b8]

Cc: Honjiyo, Lori M. <LHonjiyo@FDIC.gov>; [b8] [b8]

Figueroa Benjamin, Mariela <MaFigueroa@FDIC.gov>; Macias, Sandra <SMacias@FDIC.gov>; Colohan, Patricia A. <PColohan@FDIC.gov>; [b8]; Ties, Nicholas F. <nties@FDIC.gov>

Subject: RE: [b4,b8] Divestiture Plan / SECURE MAIL

Hi Perissa and [b8] thank you for sending this for our review. We'd like to meet to discuss. I'll look for times on our calendars. Thanks.

From: Zeller, Brian E. <BZeller@FDIC.gov>

Sent: Tuesday, February 7, 2023 6:02 PM

To: Clark, Perissa Ali <PaliClark@FDIC.gov>; Muraywid, Sumaya A. <SMuraywid@FDIC.gov>

Cc: [b8]; Honjiyo, Lori M. <LHonjiyo@FDIC.gov>; [b8]

[b8]
Subject: RE: [b4,b8] Divestiture Plan / SECURE MAIL

Thank you, Perissa.

From: Clark, Perissa Ali <PaliClark@FDIC.gov>

Sent: Tuesday, February 7, 2023 4:05 PM

To: Muraywid, Sumaya A. <SMuraywid@FDIC.gov>; [b8]

Cc: [b8] Honjiyo, Lori M. <LHonjiyo@FDIC.gov>; [b8]

[b8] FDIC San Francisco Regional Office <SFMailRoom@FDIC.gov>
Subject: [b4,b8] Divestiture Plan / SECURE MAIL

Hello, attached are the draft memo and letter regarding [b4,b8] crypto divestiture plan. SF-Legal has reviewed and concurred with the documents.

The divestiture plan is in response to a previously-withdrawn Part 362 notice. Please review and advise if we can proceed (since it's not a filing), or if we need WO concurrence with the letter and memo.

Feel free to contact me or SCM [b8] if you have any questions.

Thank you and regards,

Perissa Ali Clark

Assistant Regional Director-RMS

San Francisco Regional Office

Office: [b6]
Cell: [b6]

**FDIC****Federal Deposit Insurance Corporation**25 Jessie Street at Ecker Square, Suite 2300
San Francisco, California 94105Division of Risk Management Supervision
San Francisco Regional Office
(415) 546-0160

March XX, 2023

b4,b8

President and Chief Executive Officer

b4,b8*Sent via secure email*

Subject: Divestiture Plan

Dear b4,b8

On January 3, 2023, we received the letter you sent on behalf of b4,b8 detailing plans to divest of crypto-assets b4,b8 that the Bank currently holds and requesting the FDIC's approval of the transaction. The transaction detailed in your letter does not require a filing with the FDIC and, therefore, would not require the FDIC's approval.

Management should ensure that its valuation and valuation methodology of the crypto-assets are appropriate. The Bank should ensure that its documentation adequately supports the valuation, valuation methodology, assumptions, and determination; the accounting entries and treatment of the transaction; and compliance with Sections 23A and 23B of the Federal Reserve Act. Management's supporting documentation will be reviewed at future examinations.

Please provide written confirmation if you decide to move forward with the transaction. The written confirmation should include the date the bank completes its divestment of the crypto-assets.

Questions regarding this correspondence should be directed to Senior Case Manager b8

b8 at b6,b8 or b8

Sincerely,

Kathy L. Moe
Regional Director

cc:

b8

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

REL0000042377



FDIC

Federal Deposit Insurance Corporation

25 Jessie Street at Ecker Square, Suite 2300
San Francisco, California 94105

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

November 21, 2022

b4,b8

Chief Financial Officer

b4,b8

Subject: FIL-16-2022 Notification of Engaging in Crypto-Related Activities-Blockchain Based Digital Records – Request for Additional Information

b4,b8

On August 10, 2022, you initially notified the FDIC of **b4,b8** engagement in blockchain-based digital records and the bank's relationship with technology vendor **b4,b8**, and its recently wholly owned subsidiary **b4,b8** in response to Financial Institution Letter 16-2022, Notification of Engaging Crypto-Related Activities. On August 30, 2022, as part of an ongoing August 22, 2022, Safety and Soundness examination, you replied via email to questions.

During the course of our ongoing review, we have determined that additional information is needed to understand the nature of the activity to allow the FDIC to determine what information may be needed to assess the safety and soundness, consumer protection, and financial stability implications of the activity. Please see the attached request list regarding the Bank's activities, and provide a response addressing each of the items requested as well as supporting documentation by January 5, 2023.

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 questions, please contact Division of Risk Management Supervision Case Manager **b8** at **b6,b8** or **b8** or Division of Depositor and Consumer Protection Review Examiner **b8** at **b6,b8** or **b8**. Documents can be sent electronically as a PDF through the FDIC Secure Email portal at SFMailRoom@FDIC.gov. Information about how to use secure email and FAQs about the service can be found at <https://www.fdic.gov/secureemail/>.

REL0000042378

Sincerely,

KATHY MOE

Digitally signed by KATHY
MOE
Date: 2022.11.21 08:52:31
-08'00'

Kathy L. Moe
Regional Director

Enclosures

cc:

b8

REL0000042378

Attachment – Additional Information

1. The bank's notification letter states that the bank has purchased bonds through the **b4,b8** infrastructure.
 - a. Were those transactions recorded, cleared, or settled on the Distributed Ledger Technology (DLT)/blockchain?
 - b. If not, will future transactions be cleared, recorded, or settled on the DLT/blockchain?
 - c. Please explain how/why the DLT/blockchain technology is used for these transactions.
 - d. Was the blockchain/DLT native token utilized to complete these transactions or does the bank anticipate using it to complete future transactions?
 - e. In order to participate in the **b4,b8** infrastructure, will the bank need to hold or utilize **b4,b8** native token? If so, what functions will the native token facilitate (e.g., gas fees)?
 - f. Provide a comprehensive overview of the DLT solution and related components, such as broker, referral, website, and any others.
 - g. Are smart contracts/chaincode utilized on the DLT to facilitate transactions? If so, explain what actions/transactions the smart contracts/chaincode govern. Provide the smart contract code and any assessments of that code.
2. Please explain the node structure/consensus process of **b4,b8**
3. Does the bank serve as a node for **b4,b8** If not, explain whether and how that limits the bank's ability to view, transact, or otherwise interact on **b4,b8**
4. Does the bank serve any other role on the **b4,b8** blockchain?
5. If responses to #2 and #3 are no, how does the bank initiate transactions (buy or sell) on the **b4,b8** infrastructure?
6. The bank's notification letter states that the bank utilizes a "parallel dual process." The bank explained in an August 30, 2022 email that it maintains on-premises documentation on every **b4,b8** transaction identical to all other municipal transactions. Please explain in more detail what the parallel dual process entails, including, what documentation is on-premises, the digital process, and the dual processes for recordkeeping, clearing, and settling.
7. Provide the projected volume of transactions using the **b4,b8** infrastructure for the remainder of 2022 and the next two years.
8. Provide a comprehensive overview of the DLT solution and related components, such as broker, referral, website, and any others.
9. Outline which aspects of the **b4,b8** technology and or DLT have previously or are currently being used by the bank and when, versus aspects that are under development/consideration and are planned to be used in the future. During the recent FDIC examination, the bank's Chief Information Officer **b4,b8** stated that **b4,b8** was in the proof of concept stage and was not live; however, the bank's notification to the FDIC stated that the bank has purchased eight municipal bonds through **b4,b8** Please clarify the discrepancy between the information provided during the examination and in the bank's notification.

10. Provide all documentation provided to the board or committees related to the activity. Was board approval obtained? Was committee approval obtained and if so, which committee approved?
11. What is the website purchased by the bank to support the **b4,b8** activity?
12. What is the website's purpose/function?
13. Will the website be used by external users, such as consumers, customers, or non-customers?
14. Who was the website purchased from? At what cost?
15. Provide the risk assessment and due diligence related to each **b4,b8** and **b4,b8** product/service (including the DLT usage for securities/loan purchases/sales, broker services, website, and any other products/services).
16. Provide all contracts/agreements with **b4,b8** or other related entities.
17. **b4,b8** website reflects that a Non Fungible Token (NFT) has been minted for the bank.
 - a. Does the bank maintain the private keys, and if so, how are those keys maintained for security purposes?
 - b. Has the bank disposed of any NFTs? If so, please provide details on what was liquidated, when it was disposed, and the process explaining how it was disposed.
18. Does **b4,b8** or any other product/service being offered or proposed to be offered include NFTs? If so:
 - a. Are they minted for the bank?
 - b. Does the bank maintain the private keys, and if so, how are those keys maintained for security purposes?



FDIC

Federal Deposit Insurance Corporation

25 Jessie Street at Ecker Square, Suite 2300
San Francisco, California 94105

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

August 18, 2023

b4,b8

Subject: FIL-16-2022 Notification of Engaging in Crypto-Related Activities– Request for Additional Information

b4,b8

On August 10, 2022, you initially notified the FDIC of **b4,b8** (Bank) engagement in blockchain-based digital records and the bank's relationship with technology vendor **b4,b8** **b4,b8** and its wholly-owned subsidiary **b4,b8** in response to Financial Institution Letter 16-2022, Notification of Engaging Crypto-Related Activities.

On August 30, 2022, as part of the August 22, 2022, Safety and Soundness examination, you replied via email to follow-up questions by the FDIC. On November 21, 2022, the FDIC sent the Bank a letter requesting additional information we needed to further understand the nature of the activity. Subsequently, the FDIC received the Bank's response on January 5, 2023.

Based on our review of the information provided, additional information is needed to understand the activity. Please see the attached request list regarding the Bank's activities and provide a response addressing each of the items requested as well as supporting documentation within 60 days of the date of this letter.

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 questions, please contact Division of Risk Management Supervision Case Manager **b8** at **b6,b8** **b8** or Division of Depositor and Consumer Protection Review Examiner **b8** **b8** at **b6,b8** or **b8**. Documents can be sent electronically as a PDF through the FDIC Secure Email portal at SFMailRoom@FDIC.gov. Information about how to use secure email and FAQs about the service can be found at <https://www.fdic.gov/secureemail/>.

REL0000042379

Sincerely,

KATHY MOE

Digitally signed by KATHY
MOE
Date: 2023.08.18 11:18:50
-07'00'

Kathy L. Moe
Regional Director

Enclosures

cc:

b8

Attachment – Additional Information

1. Settlement records and documentation to show that the transactions were still settled through traditional means.
2. A list of all investments, including debt and equity, or other interests held in [b4,b8] by insiders of the bank or [b4,b8] including employees, officers, directors, their related parties, and/or their immediate families.
3. Bank's legal analysis as to any conflicts of interest created by insider ownership or involvement in [b4,b8] including the manner in which such conflicts will be addressed.
4. Updated project plan and timeline on proposed activities, including items outlined in the [b4,b8] Business Strategy.
5. Updated project plan and timeline for [b4,b8]
6. Legal analysis of applicable state law recognition of digital securities/assets and legal analysis of federal securities law implications related to digital asset securities.
7. Bank's independent legal permissibility analysis of the proposed activities related to the [b4,b8] Business Strategy.
8. Bank's conflicts of interest, ethics, or similar policies.
9. Policies governing the project's development, testing, and production and ongoing operation, and wind-down of proposed activities.
10. Explanation of [b4,b8] role and whether [b4,b8] performs any clearing or settlement.
11. Bank's due diligence on [b4,b8]
12. Description of the role of [b4,b8] with respect to clearing, settlement, or trade execution.
13. Description of [b4,b8] role with respect to proposed activity involving trade execution of loans, or origination/trading of municipal securities.
14. Bank's due diligence documentation of [b4,b8]
15. Bank analysis of whether any [b4,b8] entity is acting as a money services business.
16. Legal counsel review of platform license agreements and other contracts with any third party related to the proposed activity.
17. An explanation of how [b4,b8] improves secondary market liquidity (as stated in [b4,b8] [b4,b8] document submitted by the bank) and how significant such secondary market liquidity is for the bank's liquidity position and liquidity risk management function.
18. The process by which the bank's origination and sales of municipal loans and bonds (as stated in [b4,b8] document submitted by the bank) will be governed by bank policies and lines of authority; any legal analysis associated with a bank engaging in such activities, including any licenses or registration that may be needed; and business plans including cost/benefit analysis of bank engaging in such activities.
19. Detailed description, including project plan and timeline and related independent legal permissibility analysis, for the bank's plan to utilize [b4,b8] business model (as stated in [b4,b8] document submitted by the bank) to "[b4,b8] [b4,b8]" which the bank stated was in beta phase and going live shortly.
20. Details about the wallet, its location and usage, private key, ownership, hash algorithm and storage location on chain, private key's interaction on initiation of a smart contract/chaincode.
21. Detailed description of how the bank plans to utilize [b4,b8] business model (as outlined in [b4,b8] document submitted by the bank) to "[b4,b8]"

b4,b8

b4,b8

22. Detailed description of how the bank plans to utilize b4,b8 business model (as outlined in b4,b8 document submitted by the bank) to “b4,b8 b4,b8” and related legal permissibility analysis.
23. Project plan and timelines for leveraging b4,b8 broker registration to co-invest and to create a secondary market for direct placement bonds, which bank stated “b4,b8 b4,b8” the white label origination platform creation.
24. Detailed description of how the bank plans to utilize b4,b8 business model (as outlined in b4,b8 document submitted by the bank) to “b4,b8 b4,b8”
25. Detailed description of how the bank plans to utilize b4,b8 business model (as outlined in b4,b8 document submitted by the bank) to “b4,b8 b4,b8”
26. Detailed description of what the bank provided in its collaboration with b4,b8 b4,b8
27. An assessment of intellectual property implications to the bank given that “b4,b8 b4,b8”
28. Explanation of which entity operates the b4,b8 Platform that is utilized to execute trades of loans.
29. b4,b8 Blockchain technical and implementation documentation (including nodes, validator, delegator, gas fees, on chain document storage, etc.)
30. b4,b8 API documentation.
31. b4,b8 chaincode/smart contract documentation.
32. Bank and b4,b8 integration architecture diagram (at component and network level).
33. Technical specifications of the b4,b8 platform. Note: “A b4,b8 b4,b8 b4,b8 states that “b4,b8 b4,b8 b4,b8”
34. End to end process diagram for the proposed solution.
35. Details about transaction and transaction types, including how chaincode and smart contracts will be used (note: previously submitted Attachment 1 - b4,b8 was a very high level business process and did not provide details).
36. Description of the data collection and transmission for b4,b8 including data flows between b4,b8 the bank, and customers.
37. Description of how b4,b8 uses the transaction data.
38. Description of the mechanics of how b4,b8 will conduct a credit analysis of the issuers and b4,b8 role in that process.
39. Description of the mechanics of the dual ledger recording and how b4,b8 ensures accuracy and confidentiality of data on the blockchain.
40. Explanation of how custody is part of the platform, in light of b4,b8 Roadmap v2, which suggests that custody of bonds is part of the platform.
41. Risk assessments (repeat request of item #15 FDIC Request dated 11/21/22). If bank did not perform risk assessments, please reflect that in the response.
42. Any documented bank analysis of the due diligence documents provided by the bank on 1/5/23.



Dallas Regional Office

600 North Pearl Street, Suite 700, Dallas, Texas 75201

(214) 754-0098 FAX (972) 761-2082

b8

June 28, 2023

Board of Directors

b4,b8

Subject: April 4, 2023 Visitation Findings

Dear Members of the Board:

A joint visitation of your institution was conducted by FDIC Division of Risk Management Supervision (RMS) Senior Risk Examiner b8 FDIC Division of Depositor and Consumer Protection (DCP) Field Supervisor b8 and b8

b8 The visitation commenced on April 4, 2023, and focused on the bank's proposed deposit activity with b4,b8

b4,b8

As described in numerous meetings and correspondence prior to the beginning of the visitation, the Board is considering accepting deposit accounts from b4,b8 The bank's due diligence is in process, and the proposed activity consists largely of two accounts:

- An b4,b8 deposit account for the benefit of b4,b8 customers. The funds in this account represent US dollar balances resulting from the sale of the customer's crypto-asset investments, to be b4,b8

b4,b8 This account was potentially as large as b4,b8 before the b4,b8 b4,b8 and is currently held by b4,b8 Management estimates between b4,b8 in transactions through this account currently.

- A b4,b8 deposit account related to loans received by b4,b8 totaling b4,b8

b4,b8

b4,b8

b4,b8

Bank management became aware of this possible transaction through a current banking customer, third party payment processor [b4,b8] [b4,b8] has reportedly processed transactions for [b4,b8] previously and would assist in processing ACHs out of the [b4,b8] account. Notably, the bank has already opened deposit accounts for two inactive [b4,b8] subsidiaries: [b4,b8] [b4,b8] These accounts total [b4,b8] and are being used to pay legal fees unrelated to [b4,b8]

As proposed, management plans to service the accounts while keeping the funds off-balance sheet through products administered by [b4,b8] Management is researching the [b4,b8] and repurchase agreements (repo accounts). The [b4,b8] [b4,b8] would serve as custodian for the funds, [b4,b6,b8] [b4,b8] and the deposits would be secured by US Treasury or Agency securities with a margin between 100.25 percent and 101 percent if placed in repo accounts. Revenue consists of a 55 basis point fee generated for servicing the [b4,b8] relationship and ACH transactions with [b4,b8] Management expects to earn the overnight US Treasury rate, deduct their fee, and pass the remainder of accrued interest through to [b4,b8] [b4,b8] was initially projected to occur over a [b4,b8] timeframe, but may accelerate with the approved [b4,b8] No significant additional overhead expenses are anticipated at this time.

The Board and management needs to significantly expand the risk assessment process and conduct additional due diligence and contingency planning before accepting any additional deposits from [b4,b8] or [b4,b8] entities. Significant risks are presented by these transactions, related to legal, accounting, operational, capital, credit, liquidity, reputation, Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT), consumer protection, and potentially other areas. However, the risk assessment does not fully analyze these various and compounding risks, and failing plan for the risks of this transaction could result in substantial financial impact to the bank. Refer to Appendix A for detailed recommendations and items to consider in the risk assessment process. In addition, the bank may need to obtain significantly more capital and liquidity in the event the deposits are required to be held on the bank's balance sheet. The Board and management are reminded of their responsibilities to adequately identify, measure, monitor, and control risks prior to entering any new business lines, consider how new ventures impact the overall risk profile of the institution, and maintain adequate capital levels for the risk profile of the institution.

In addition, management notified us on May 2, 2023 that they have engaged a forensic accounting review of a preliminary finding by the bank's external auditor. The external auditor identified a discrepancy involving an outage in a contra-liability account to process ACH returns for [b4,b8] After completing a forensic review, management determined the outage was an unpaid receivable from [b4,b8] of more than \$2 million, which was collected on June 9, 2023. Management should implement additional controls to prevent recurrence of this event, and should test the new controls frequently to ensure effectiveness. The

b4,b8

The Board should review this visitation letter and the attached documents in their entirety at the next regularly scheduled Board meeting, with a record of that review entered in the minutes. This letter of visitation findings includes confidential information and may not be disclosed or made public in any manner under Part 309 of the FDIC Rules and Regulations and [b4,b8]

The composite and component ratings assigned under the Uniform Financial Institutions Rating System were not included in the scope of this visitation and are unchanged.

Please contact FDIC Case Manager **b8** at **b8** or **b8** **b8** if you have any questions. Correspondence to the **b8** may be addressed to **b8** and sent via email to **b8**

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/>.

Sincerely,

Sincerely,

/s/ Joseph A. Meade

Joseph A. Meade
Acting Deputy Regional Director
Dallas Regional Office
Federal Deposit Insurance Corporation

b8

Appendix A

Management must address the recommendations below, at a minimum, to demonstrate a full understanding of the potential risks with the b4,b8 deposit relationship and proposed activities.

Due Diligence/Planning

- Complete a legal review of the Uniform Depository Agreement, proposed contracts with all third parties including b4,b8 and b4,b8 the b4,b8, and other b4,b8 b4,b8 documents to ensure proposed accounts and activities are structured appropriately, identify any conflicting clauses or prohibitive acts, and minimize potential risks to the bank. Failure to do so could expose the bank to unidentified legal liability. Some of the items to consider include:
 - FDIC deposit insurance requirements versus collateralization requirements on deposits that exceed FDIC insurance limits.
 - The current Depository Agreement established a 115 percent collateral coverage, which the repo accounts do not have. Legal review and management's due diligence must determine if the repo accounts are an acceptable option for b4,b8. If the b4,b8 does not approve of the current repo collateralization structure, management must assess the potential risk of any alternative arrangements to the bank's capital, liquidity, and earnings.
 - Proper titling of the Estate and Reserve accounts.
- Obtain a legal analysis and opinion of whether the incoming funds for the Estate account constitute brokered deposits to properly identify the risks of a possible funding concentration. The bank is responsible for determining whether these deposits are brokered deposits.
- Expand the due diligence to cover all of b4,b8 related entities (affiliates and subsidiaries) to determine their status in the b4,b8 and their potential impact to the proposed deposit activities and bank's risk profile. This process is necessary to properly assess the risk profile of other entities that may be involved in this transaction.
- Expand the third party vendor due diligence for b4,b8 and b4,b8 to specifically assess their liquidity positions and how it could affect the bank's credit, liquidity, and capital positions. Delays in processing transactions or the counterparties' inability to pre-fund transactions could result in financial exposure to the bank.
- Ensure any agreements and contracts made between the bank and third parties clearly outline the expectations of each party's role and responsibilities in regards to ongoing reporting requirements, AML/CFT, consumer compliance, and funding of ACH activities. Clarifying roles and responsibilities allows accountability and accurate risk assessment for all parties.

- Research accounting and call report treatment of **b4,b8** Repo balances or one-way ICS sales to ensure compliance with GAAP and regulatory guidance, and to assess the potential impact on capital and liquidity and ensure accurate communication of the bank's financial condition.
- Clarify and document **b4,b8** **b4,b8** to allow accountability, including the following:
 - Who maintains records of the **b4,b8** customers?
 - Who controls the funds?
 - Who authenticates the customer and balance?
 - Who will authorize the ACH or provide transfer instructions to **b4,b8**?
 - Does the **b4,b8** need to provide approval for all transactions and how would this requirement potentially affect timing?
 - How will the bank receive the ACH file?
 - How will OFAC and any other transaction monitoring occur?
 - Who will reconcile and verify the ACH transaction at the bank end?
 - How will funds be requested from **b4,b8**?
 - What is the timing required to receive those funds?
 - Who will communicate to **b4,b8** customers as transactions are processed?
 - Other necessary and prudent steps to ensure the provisions of all contracts and agreements are met.
- Specifically consider and document that **b4,b8** and all other relevant parties have the information and controls necessary for the disbursements. Failing to complete this step could result in legal risk to the bank.
 - Confirm the entity having the rights to disburse funds also has appropriate controls to ensure funds are delivered to the intended recipient.
 - If the disbursing entity is a third party, the bank must determine and document what oversight is necessary and ensure they have the contractual ability, staffing, and expertise to perform such oversight.
- Document expectations of transaction inflow/outflow for each deposit account, as well as the plan of action should activity deviate from these projections. Establishing expectations in advance would allow management to identify if any changes to the program are necessary to manage higher or lower volume as the transaction proceeds.
- Establish a more detailed cost/benefit analysis of the proposed deposit relationship and activities to identify cost overruns or revenue shortfalls relative to the risk of the transaction. This analysis should itemize the following items:
 - Interest income received and paid on deposit accounts.
 - Personnel expense allocated to due diligence, contingency planning, and administration.
 - Potential ancillary expenses associated with each scenario (legal, accounting, contract employees or additional staffing, insurance).

- Develop a written plan for enhanced, ongoing intraday liquidity and capital monitoring to deal with any resulting issues regarding transfer of funds between the bank and **b4,b8** requests, or demands from **b4,b8**. Inadequate monitoring could result in severe negative consequences to the bank's financial condition.
- Review blanket bond and other insurance requirements to determine the cost of additional coverage and what specific procedures are needed. Inadequate insurance coverage could result in significant loss exposure for the bank.

Risk Assessment

- Complete an expanded risk assessment of the proposed deposit relationship and activities. Comprehensive risk assessment is vital to identify and measure the risks presented by this transaction and confirm a sound financial condition. Management must ensure the risk assessment details all potential risks and any mitigating factors, including but not limited to the following:
 - Liquidity, capital, and credit risks that may arise due to timing differences between receiving ACH requests from **b4,b8** and processing the transaction to receive the funds from **b4,b8**
 - Liquidity and capital risks arising from **b4,b8** terminating the repo account or **b4,b8** ending their relationship with the bank, or ceasing to exist as an entity for any reason during the projected term of the relationship.
 - Risk that could arise from any future litigation, liquidity concerns, or negative publicity surrounding the liquidation of funds or the parties tangentially involved in the transaction.
 - Legal and regulatory risks associated with the Uniform Depository Agreement requirement to ensure deposits are appropriately collateralized and the bank's plan to use the **b4,b8** service.
 - AML/CFT risks associated with the accounts and their beneficial owners.
 - Consumer protection and compliance issues, including Unfair, Deceptive, or Abusive Acts or Practices (UDAP) and customer disclosures.

Contingency Planning

- Develop contingency funding and operating plans to prepare for potential disruptions in the proposed deposit account activities. These plans are vital and must be thoroughly developed to consider all potential risks and ensure adequate financial condition. Plans must include detailed capital and liquidity plans and projections in case the **b4,b8** relationship is terminated or the **b4,b8** requires the deposits to be held at the bank.
- Develop an exit strategy to unwind the relationship should the Board or management decide to exit the arrangement prior to the full liquidation of the accounts. This exit strategy must include income and expense projections and measure the potential impacts to capital and liquidity. Failure to document an exit strategy could result in unexpected expenses and impair the financial condition of the bank.

Policies

- Revise the AML/CFT policy to include the proposed deposit relationship and activities. Ensure the policy addresses the risks identified in the related risk assessment. The policy should consider and clearly document the responsibilities of the bank and third parties in this area, such as ensuring OFAC searches on ACH transactions and files. Failure to complete these steps could result in facilitating suspicious activity or processing illicit transactions.
- Review and revise, as needed, the bank's consumer compliance policies to ensure they address any additional risks or requirements associated with the proposed deposit relationship and activities. The policies should clearly spell out the responsibilities of third parties to ensure the bank is meeting its consumer disclosure and UDAP requirements to avoid causing customer harm.

Interim Contact	
Bank:	b4,b8
Date:	9/26/2022 *
Case Manager:	b8
Bank Contact:	President b4,b8 and others*
Last Exam:	12/13/2022 Joint b4,b8
MRBA:	b4,b8
IT Exam:	b4,b8
BSA Issues:	b4,b8

* - Contact conducted during a visit which began on 9/26/2022. Please refer to the visit findings for detailed information.

Changes in Bank Products or Services

- The bank has commenced certain fintech BAAS relationships.
- The bank is also performing third-party ACH sender services for b4,b8 which has significantly impacted the balance sheet.
- The bank submitted notice of intent to engage in crypto-related services during the visit.

Changes in Management or Key Personnel

- No changes in senior management since the exam.

Changes in Strategic Business Plan or Operations

- The b4,b8 relationship and services appear to represent a new business strategy.
- Management has staffed up to expand mortgage banking operations.

Significant trends or changes in the local economy or business conditions as detailed in publicly available information, Division of Insurance and Research data, or other means.

- Economy remains good.

Purchase, acquisition, or merger strategies.

- No mergers or acquisitions planned.

Changes in technology, including operational systems, or plans for new products/activities that involve new technologies.

- Normal upgrades.

Financial performance and trends, particularly unfavorable factors identified during off-site analysis.

b4,b8

b4,b8

• **b4,b8**

Recent Financial Institution Letters, Regional Director Memorandums, or regulations that may affect the institution's operations.

- See comment above regarding crypto-related activities.
- Management was also made aware that the question of whether or not the deposits associated with the **b4,b8** relationship should be considered brokered was under review. Management contends these deposits should not be considered brokered. This will be addressed outside of the visit framework.

Management's concerns about the bank or FDIC's supervision.

- Management noted concern with perceived FDIC resistance to new strategic pursuits (BAAS, **b4,b8** relationship). It was noted that these items involve new risks, and there is a need to understand the risks and ensure the Board understands the risks.



Federal Deposit Insurance Corporation

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

Division of Risk
Management Supervision

816-234-8000

Fax 816-234-8182

February 7, 2023

MEMORANDUM TO: Correspondence File

FROM:

b8

Case Manager

SUBJECT:

Interim Bank Contact

b4,b8

I spoke with prospective Pres **b4,b8** multiple times during the past year. Most notably, I worked with Pres **b4,b8** throughout 4Q22 on his endeavor to team up with 3rd parties to offer a crypto assets transaction services. This involved several conversations and information requests. Most recently, ARD Pankratz and I discussed our questions and concerns surrounding the readiness of the proposed interface provider on 12/16/22. As a result of this discussion, Pres **b4,b8** and the Board chose to suspend pursuit of crypto asset activity. This serves as the interim contact.

REL0000042403



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

Via Secure Email

April 18, 2022

b4,b8

President and Chief Executive Officer

b4,b8

Subject: Crypto-Related Activities

Dear **b4,b8**

We received your April 8, 2022, email in response to FDIC's April 7, 2022, Financial Institution Letter (FIL) entitled, "Notification and Supervisory Feedback Procedures for FDIC-Supervised Institutions Engaging in Crypto-Related Activities," (FIL-16-2022).

Thank you for engaging with the Agency regarding the bank's activities. To help us better understand the activities based upon your subsequent April 12, 2022, email response, we do have four additional questions which are detailed below.

- We are assuming that your use of the abbreviation "ISO" refers to Independent Sales Organization. Please provide us with a copy of the contract between the bank and your ISO customer.
- Please provide details for what services the ISO provides such as Application Programming Interface (API) integration within the bank, recordkeeping, etc.
- Please provide a brief overview of how the bank's Bank Secrecy Act and Compliance programs oversee the relationship.
- Please provide details of any use of an omnibus account for the funds related to the 1 customer (that appears to really represent 4 customers), and if/how FDIC deposit insurance applies to that account or the end users.

We appreciate your co-operation to better understand your bank's relationship with crypto-related activities. Please provide a written response to this letter by May 20, 2022. Please address your written communications to Regional Director Kathy L. Moe. You may mail your correspondence to the letterhead address. However, to help facilitate the processing of correspondence, please email documents electronically as a PDF through the FDIC Secure Email

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

REL0000042405

portal at SFMailRoom@FDIC.gov. A copy of your communication can also be forwarded to Case Manager [REDACTED] **b8**

If you have any questions, please contact Case Manager [REDACTED] **b8**
or at [REDACTED] **b6,b8**

Sincerely,

LAURA
RAPP

Digitally signed by
LAURA RAPP
Date: 2022.04.18
16:33:39 -07'00'

Laura A. Rapp
Assistant Regional Director

cc: Federal Reserve Bank of San Francisco

[REDACTED] **b8**



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

New York Regional Office
Division of Risk Management Supervision
Division of Depositor and Consumer Protection

September 20, 2022

Board of Directors

b4,b8

Subject: Response to Notification Regarding Crypto-Related Activities

Dear Members of the Board:

We are in receipt of your letter dated May 20, 2022, notifying us of your intent to withdraw from your partnership with **b4,b8**. The partnership would have provided your customers the ability to effect online purchases and sales of Bitcoin. Your letter stated that executive management and the Board determined that, due to current crypto asset market volatility and the evolving regulatory framework, offering these services to your customers through **b4,b8** was not conducive to the success of the program. However, Bank management has indicated that the **b4,b8** partnership may be revisited in the future.

Financial Institution Letter *FIL-16-2022, Notification of Engaging in Crypto-Related Activities*, requests that all FDIC-supervised institutions that intend to engage in any activities involving or related to crypto-assets (also referred to as “digital assets”) notify the appropriate FDIC Regional Director. Accordingly, we request the Bank notify this office prior to resuming the **b4,b8** relationship or engaging in any other crypto asset-related service in the future.

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/>.

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 **b8** at **b6**.

Sincerely,
Frank R. Hughes
Regional Director

cc:

b8

REL0000042409

b4,b8

b8

From: Walker, Patrice
Sent: Thursday, September 22, 2022 4:26 PM
To: **b8**
Cc:
Subject: RE: Legal Referral **b4,b8** Crypto Activity

Thanks. Nothing else from Legal.

From: **b8**
Sent: Thursday, September 22, 2022 4:26 PM
To: Walker, Patrice <pwalker@FDIC.gov> **b8**
Cc: **b8**
Subject: Re: Legal Referral - **b4,b8** Crypto Activity

WO has reviewed and signed off. Thanks

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From: Walker, Patrice <pwalker@FDIC.gov>
Sent: Thursday, September 22, 2022 4:06:54 PM
To: **b8** **b8**
Cc:
Subject: RE: Legal Referral **b4,b8** Crypto Activity

b8

I wanted to make sure the specific crypto activities of **b4,b8** were reviewed by Washington. I know that in the past, we sent these letters when the bank merely held deposit accounts for entities that participated in crypto-related activities. I couldn't gather from the proposed letter if those were the same activities proposed by **b4,b8** when the letter states "crypto-related transactions" that pass through the bank's deposit accounts. Certainly, if it's cash generated from those activities being passed through, this would line up with my understanding of the region's past treatment.

Other than verifying the review of the activities, Legal has no changes to the letter.

Patrice

From: **b8**
Sent: Thursday, September 22, 2022 8:35 AM
To: Walker, Patrice <pwalker@FDIC.gov> **b8**
Subject: Fwd: Legal Referral **b4,b8** Crypto Activity

Good morning. Just an fyi on this letter. It's a template letter that has previously been vetted so it shouldn't take long to review. Thanks

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From: [b8]
Sent: Thursday, September 22, 2022 7:48:17 AM
To: [b8]
Subject: FW: Legal Referral - [b4,b8] Crypto Activity

From: RMS ATL Legal Referral <RMSATLLegalReferral@FDIC.gov>
Sent: Wednesday, September 21, 2022 3:05 PM
To: [b8]
Cc: Walker, Patrice <pwalker@FDIC.gov>; [b8] Times, Mark A. <MTimes@FDIC.gov>; Rollinson, Bruce <BRollinson@FDIC.gov>
Subject: FW: Legal Referral - [b4,b8] - Crypto Activity

This matter is assigned to [b8]

RO—Advisory Opinions

From: [b8]
Sent: Tuesday, September 20, 2022 10:16 AM
To: RMS ATL Legal Referral <RMSATLLegalReferral@FDIC.gov>
Cc: Rollinson, Bruce <BRollinson@FDIC.gov>
Subject: Legal Referral - [b4,b8] Crypto Activity

Good morning,

I've attached a letter to the Board notifying them that the reported crypto-related activity is outside of the scope of our guidance. Please review the letter for any recommendations or concerns.

Thank you,

[b6,b8]

Case Manager, Division of Risk Management Supervision

Federal Deposit Insurance Corporation

10 Tenth Street Northeast, Suite 800

Atlanta, Georgia 30309

Office: [b6,b8]
Cell: [b6,b8]

[fdic.gov](https://www.fdic.gov)

FDIC

b8

From: b8
Sent: Friday, October 07, 2022 11:52 AM
To: FDIC San Francisco Regional Office
Subject: RADD Room
Attachments: 09-27-2022 Call From b4,b8 CEO.pdf; 1 b4,b8 Transactions with IDIs.pdf

NONPUBLIC//FDIC INTERNAL ONLY

- a. Include email: Yes
- b. Institution or Subject Matter: b4,b8
- c. Institution City and State: b4,b8
- d. Division: RMS

e. Distributions: NONE – Internal Only

- f. Primary Folder: Correspondence
- g. Source: RO
- h. Doc Name: Miscellaneous
- i. Description: b4,b8 Article on b4,b8

Thanks for the update b8 I can only speak to b4,b8 involvement with b4,b8 and you, b8 and I heard what they said at the September 19th meeting that they were only exploring the option of engaging with b4,b8 My interpretation of the article is that b4,b8 is b4,b8 b4,b8 I think b4,b8 could be interpreted in a number of ways. Just my thoughts. Please also see the attached document that is in RADD for b4,b8

b8
FDIC Case Manager
b6,b8

From: b8
Sent: Friday, October 07, 2022 11:07 AM
To: Rhodes, Debra L. <DRrhodes@FDIC.gov>; b8; Krech, Andrew <AKrech@FDIC.gov>
Cc: b8
Subject: b4,b8 Transactions with IDIs

Hi Debbie, b8 and Andy

This article came through my news feed on b4,b8 While only b4,b8 is mentioned as part of the transaction, b4,b8 are also noted.

b8 I don't remember b4,b8 mentioning going live with this from the other week and see a note in Correspondence that they are holding off on b4,b8 – is that the case?

Why this is coming up is DC Policy indicated that they are likely going to be working on some kind of horizontal request list or review for b4,b8 They did not mention it going live.

Thanks **b8**

b8

From: b8
Sent: Tuesday, September 27, 2022 2:18 PM
To: FDIC San Francisco Regional Office
Subject: RADD Room

NONPUBLIC//FDIC INTERNAL ONLY

a. Include email: Yes
b. Institution or Subject Matter: b4,b8
c. Institution City and State: b4,b8
d. Division: RMS

e Distributions: NONE – Internal Only

f. Primary Folder: Correspondence
g. Source: RO
h. Doc Name: Miscellaneous
i. Description: 09/27/2022 b4,b8 CEO Call to SFRO RE: b4,b8 Update

NONPUBLIC//FDIC INTERNAL ONLY

On September 27, 2022 b4,b8 called the RO to inform the Case Manager about certain aspects of the Bank's relationship with b4,b8 that they were considering.

First he emphasized that the Bank was not pursuing a contractual relationship with b4,b8 right now and will correspond with the FDIC and b8 significantly more before pursuing that farther. CEO b4,b8 said that management is working on a b4,b8 with b4,b8 that would allow management to obtain more information about b4,b8 applications, blockchain technology, b4,b8 engagement with Regulatory Agencies and policymakers, etc., without any requirements or obligations to contractually enroll in b4,b8 technology. b4,b8 wanted to make clear that this was a learning opportunity for the Bank and wouldn't expose it to blockchain risks.

b8 FDIC Case Manager
Ofc b6,b8 Cell b6,b8

b4,b8

b8

From: **b8**
Sent: Thursday, December 22, 2022 10:15 AM
To: FDIC San Francisco Regional Office
Subject: RADD: **b4,b8** Crypto Related Customer Data
Attachments: [EXTERNAL MESSAGE] **b4,b8** - HRA Crypto/Trust Monitoring; RE: [EXTERNAL MESSAGE] **b4,b8** - HRA Crypto/Trust Monitoring; RE: **b4,b8** **b7(E),b8** **b7(E),b8** FW: [EXTERNAL MESSAGE] **b4,b8** - HRA Crypto/Trust Monitoring

SF-RADD:

Please place this email and the attachments in the Correspondence Folder of **b4,b8**

1. Include Email (Yes/No): Yes
2. Business Line (DCP/RMS): RMS
3. Bank: **b4,b8**
4. City/State: **b4,b8**
5. Folder: Correspondence
6. Source: RO
7. Doc Name: Miscellaneous
8. Description: Crypto-Related Deposits

From: **b8**
Sent: Friday, December 9, 2022 2:58 PM
To: **b8**
Subject: RE: **b4,b8** Crypto Related Customer Data

I've attached a few emails from 12/2/22 -- I reached out to the bank to get the latest balances, and an email from SRA Bialosky, who I also provided the 12/2/22 **b4,b8** emails, and an email to SRA Bialosky that has a little info on what the CEO said. Let me know when you want to chat.

From: **b8**
Sent: Friday, December 9, 2022 12:12 PM
To: **b8**
Subject: FW: **b4,b8** Crypto Related Customer Data

Hey **b8**

Hope all is well for a Friday. Thanks for reaching out to the bank on the FIL. I think their response is what we expected, and just want to follow-up with you on a few things. Let me know if you have some time to chat here over the next few days. The RO is wanting an update on the **b7(E),b8** stuff next week.

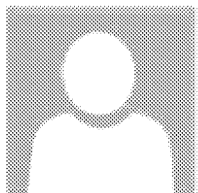
Thanks **b8**

From: **b8**
Sent: Monday, October 17, 2022 11:49 AM

To: [b8] [b8]

Subject: RE: [b4,b8] Crypto Related Customer Data

Whoever calls, this is [b4,b8] contact information.



Name

[b4,b8]

CONTACT NOTES

+ Email

Email

[b4,b8]

Changes Saved To
Outlook (Contacts)

+ Work

Title

President

+ Phone

Work

[b4,b8]

Company

[b4,b8]

Mobile

[b4,b8]

+ Address

Work Address

[b4,b8]

+ IM

IM

[b4,b8]

[b8]

Field Supervisor | Risk Management Supervisor

[b8]

Federal Deposit Insurance Corporation

[fdic.gov](https://www.fdic.gov)

From: [b8]

Sent: Wednesday, October 12, 2022 12:13 PM

To: [b8]

Subject: RE: [b4,b8] Crypto Related Customer Data

Thank you both. I agree with them just being depositors. DC has been evaluating these on a case by case basis, and this one may be in the gray area.

We have a few banks like this where we either know of activity, expect some activity, or expected an exit of activity where we didn't receive a notification. The RD memo is inconsistent on what to do with those cases (one place it says contact DC, the other place says the RO determines).

Given the situation of this one, I'll ponder and let you know if we should maybe reach out. Good news is yall did reach out a while back to the bank with a super narrative, plus the likely unwinding of activity so really nothing major to be concerned about.

Thanks for a super quick response! **b8**

From: **b8**

Sent: Wednesday, October 12, 2022 2:07 PM

To: **b8**

Subject: RE: **b4,b8** Crypto Related Customer Data

I'm not aware of any filing either. The bank was definitely unwinding this activity, and the bank doesn't have any digital or crypto-asset activity or plans for any. Those listed below are just deposits of customers that the bank had back then as depositors.

b8

Field Supervisor | Risk Management Supervisor

b8

Federal Deposit Insurance Corporation

[fdic.gov](https://www.fdic.gov)

From: **b8**

Sent: Wednesday, October 12, 2022 12:02 PM

To: **b8** **b8**

Subject: RE: **b4,b8** Crypto Related Customer Data

Hi **b8**

I'm not aware of the bank sending an FIL Notification, and I'm not aware of us asking them to file either.

From: **b8**

Sent: Wednesday, October 12, 2022 11:55 AM

To: **b8**

Subject: RE: **b4,b8** Crypto Related Customer Data

Hi **b8**

Sorry to bother you about this. Do we know if the bank happened to send in a FIL Notification surrounding their activity, or if we asked them to? **b8** — great write up below and it gave me a sense that this activity may actually have moved on from the bank at this point.

b8 received a request to get an update on where we stand with some of our banks in the digital asset realm, with this being one of them.

Thanks **b8**

From: **b8**
Sent: Friday, February 04, 2022 9:20 AM
To: **b8**
Subject: FW: **b4,b8** Crypto Related Customer Data

FYI

From: **b8**
Sent: Friday, October 15, 2021 11:43 AM
To: **b8**; Macias, Sandra <SMacias@FDIC.gov>; **b8**
b8
Cc: **b8**
Subject: **b4,b8** Crypto Related Customer Data

Hi – As you know, I spoke with **b4,b8** President **b4,b8** and BSA Officer **b4,b8** this week about the bank's digital asset/crypto related high risk customers in an attempt to better understand that bank's strategic plan and activities related to this area. President **b4,b8** adamantly made clear that the bank has no intention or strategy to seek out or attract digital asset related customers. As a matter of fact, the bank is shrinking the bank from these types of customers because it wants to be a "plain vanilla, traditional style" bank and serve the **b4,b8**. **b4,b8** pointed out that virtually all of the customers that have related digital/crypto activity were onboarded in 2020 and were brought into the bank through a relationship they had with the bank's **b4,b8**. When it became apparent that the bank had no intention to grow this type of business, (**b4,b8** resigned to join a start-up FinTech company **b4,b8** just recently departed, and the bank is now searching for a replacement CFO). To make sure that I fully understood and had on record what the bank's current crypto-related customer base is, I asked them to provide me with a summary report listing each customer relationship, a description of the customer's business and activities, and deposit activity. **b4,b8** offered to also who deposit activity over time, from 2020 to current date. I just received this report, which is the attached spreadsheet from the bank.

Please let me know if you have any questions or need additional information. While I was waiting for this report, I began to draft this e-mail and wrote the following comments about three of the bank's known high-risk customers that are potentially related in some way to digital currency, blockchain, or crypto. All three listed below are included in the report that the bank sent today.

b4,b8

b4,b8

b8

CFE

Field Supervisor | Risk Management Supervision

Federal Deposit Insurance Corporation

b8

Office:

b8

[fdic.gov](https://www.fdic.gov)

FDIC

b4,b8

b4,b8

b8

From: Bialosky, Adam L.
Sent: Wednesday, November 30, 2022 7:29 PM
To: **b8**
Subject: RE: **b4,b8** **b7(E),b8**

Hi **b8**

Based on the information below, I don't see any legal issues regarding the Bank's crypto-related activities. Do we have any updated information on the Bank's high-risk customers involved in crypto-related activities? I thought the Bank was moving away from this type of customer.

Thanks,

Adam

Adam Bialosky
Senior Regional Attorney
Federal Deposit Insurance Corporation
25 Jessie Street, Suite 1400
San Francisco, California 94105
b6
abialosky@fdic.gov

From: **b8**
Sent: Tuesday, November 29, 2022 11:06 AM
To: Bialosky, Adam L. <ABialosky@FDIC.gov>
Subject: FW: **b4,b8** **b7(E),b8**

Hi Adam,
ARD Valderrama asked me about this today – do you have any input on this? I have attached correspondence that I had with the bank after **b8** was asking me about it last month.
Thanks,

b8

From: Valderrama, Jaclyn M. <jvalderrama@FDIC.gov>
Sent: Tuesday, November 29, 2022 11:25 AM
To: **b8**
Subject: FW: **b4,b8** **b7(E),b8**

Hi **b8** Did Adam ever get back to you on this?

From: Kwong, Kitty <CKwong@FDIC.gov>
Sent: Friday, July 22, 2022 7:35 AM
To: **b8**
Cc: Valderrama, Jaclyn M. <jvalderrama@FDIC.gov>; Bialosky, Adam L. <ABialosky@FDIC.gov>; Sano, Joseph J.

<JSano@FDIC.gov>; Gekas, JoAnna A. <JGekas@FDIC.gov>

Subject: FW: [b4,b8] [b7(E),b8]

FYI – This matter is assigned to Senior Regional Attorney Adam Bialosky.

Adam, [b5]

From: Sano, Joseph J. <JSano@FDIC.gov>

Sent: Thursday, July 21, 2022 4:03 PM

To: Bialosky, Adam L. <ABialosky@FDIC.gov>

Cc: Kwong, Kitty <CKwong@FDIC.gov>

Subject: FW: [b4,b8] [b7(E),b8]

New Assignment

Crypto

From: [b8]

Sent: Wednesday, July 20, 2022 11:11 AM

To: Gekas, JoAnna A. <JGekas@FDIC.gov>; Sano, Joseph J. <JSano@FDIC.gov>

Cc: Valderrama, Jaclyn M. <jvalderrama@FDIC.gov>

Subject: [b4,b8] [b7(E),b8]

Hello Joe and JoAnna,

Please assign an attorney to [b4,b8] which is listed in [b7(E),b8]. The bank is **not** heavily involved in crypto-related activity and the President has stated intentions to reduce any deposits related to crypto. The next examination of the bank is scheduled for 8/15/22.

When questioned about the bank's crypto related accounts in October 2021, FS [b8] provided the following information after speaking to President [b4,b8] and BSA Officer [b4,b8] about the bank's digital asset/crypto related high risk customers in an attempt to better understand that bank's strategic plan and activities related to this area:

President [b4,b8] adamantly made clear that the bank has no intention or strategy to seek out or attract digital asset related customers. As a matter of fact, the bank is shrinking the bank from these types of customers because it wants to be a "plain vanilla, traditional style" bank and serve the [b4,b8]. [b4,b8] pointed out that virtually all of the customers that have related digital/crypto activity were onboarded in 2020 and were brought into the bank through a relationship they had with the bank's [b4,b8]. [b4,b8] When it became apparent that the bank had no intention to grow this type of business, [b4,b8] [b4,b8] resigned to join a start-up FinTech company. To make sure that I fully understood and had on record what the bank's current crypto-related customer base is, I asked them to provide me with a summary report listing each customer relationship, a description of the customer's business and activities, and deposit activity.

Three of the bank's known high-risk customers that are potentially related in some way to digital currency, blockchain, or crypto:

[b4,b8]

b4,b8

Thanks,

b8

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

b6,b8

b4,b8

Concentrations	b4,b8
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LARGE DEPOSITOR* FUNDING CONCENTRATION	BALANCE (‘000 USD)	PERCENT OF TOTAL ASSETS**
--	-----------------------	---------------------------------

Large Depositors		
b4,b8		

* Large depositors are defined as depositors with balances of two percent or more of the bank's total deposits. Total deposits were b4,b8 at June 30, 2022.

** Total assets were b4,b8 M at June 30, 2022.

b4,b8

b8

From: b8
Sent: Thursday, December 22, 2022 2:55 PM
To: FDIC San Francisco Regional Office
Subject: RADD Room

a. Include email: Yes
b. Institution Name: b4,b8
c. City:
d. State:
e. Division: RMS
f. Folder: Correspondence
g. Source: RO
h. Doc Name: Miscellaneous
i. Description: Update on b4,b8 and upcoming Jan. 2023 exam.

From: b8
Sent: Thursday, December 22, 2022 9:06 AM
To: b8
Cc: Wampler, Bryan <BWampler@FDIC.gov>; b8
b8 Lutz, Samuel B. <salutz@FDIC.gov>; b8 Wong, David
<DWong@FDIC.gov>; Sheeren, Matthew L. <MSheeren@FDIC.gov>; b8
b8
Subject: RE: b4,b8

Good morning

Our exam takes place b4,b8 b8 is EIC and b8 is EIC for AML/CFT. It is a joint exam with the state processing. Our focus is BSA so we don't have much other staff on the assignment. Send us the request letter...hopefully it is short and focused given our lack of staff. But, we will add someone to look at this if needed. We will also loop in the state on this topic.

b8 if you would like to send an examiner, you are welcome to do so.

I'm taking off today for vacation. b8 is around over the holidays. So, reach out to him if anything else comes up.

Thank

b8

From: b8
Sent: Thursday, December 22, 2022 5:32 AM
To: b8
Cc: Wampler, Bryan <BWampler@FDIC.gov>; b8

b8

Lutz, Samuel B. <salutz@FDIC.gov>;

b8

b8

Wong, David <DWong@FDIC.gov>; Sheeren, Matthew L. <MSheeren@FDIC.gov>;

b8

b8

Subject: RE: b4,b8

Hi b8

A bit of news, that maybe b8 or other cc parties can add to or correct.

We had a call last Monday on 12-19-2022 with the WO including Sumaya Muraywid. An exam is planned for the end of January 2023 that will focus on BSA compliance. There was a November 2022 BSA visit (attached) to review Board Resolutions and MRBAs, and the less than satisfactory conditions that continue. Per the latest information, b4,b8

b4,b8 which is down from higher levels. b4,b8 From our call, I believe that is was mentioned that there was no known ties to b4,b8 but your originating email indicates otherwise.

It appears that b4,b8 has b4,b8 accounts at b4,b8 including one b4,b8 and that some of the accounts are b4,b8. b4,b8 did poor due diligence regarding these accounts in terms of what the funds represent and who are b4,b8 customers. Part of this deposit base might be involved with maintaining stable coin reserve funds, which has volatility concerns. The accounts could be FBO (For Benefit Of Other) accounts. b4,b8 appears to be dealing directly with b4,b8 customers. The upcoming exam will review what the accounts are and who are the customers. As noted below in your originating email, b4,b8 a customer.

It appears that a b4,b8 also has a relationship with b4,b8

Compliance is interested in the title of the accounts, account purposes, and how the web-site is set up. Compliance is interested in getting screen shots of what the customer sees on the internet. Compliance wants to make sure that there is no misrepresentation of FDIC insurance.

In case of a resolution, it might be difficult to figure out who is insured and for how much. DRR possibly won't be able to make insurance determinations within 24 hours. These accounts might have to be placed in a "bucket" for a later insurance

determination, which could be lengthy. I don't know if part 370 and/or part 360.9 applies to this bank for deposit determinations and resolution readiness, and if these statutes will be reviewed during the exam. I believe that the CISR division has a group in Operational Readiness and Assurance that checks for part 370 and part 360.9 compliance, and any possible violations. Possibly Operational Readiness and Assurance can participate in the exam. In any event, the DRR playbook for this bank probably needs to be updated.

Looks like that for the January 2023 exam that no crypto subject matter expert will be on the exam team due to personnel availability issues. The RO, in conjunction with the WO, will supply the EIC with a pre-examination list of requested documents to get from bank management. These items will be used to determine if the activity with [b4,b8] is "In Scope or Out of Scope," per the 4/7/2022 FIL. With the absence of a crypto subject matter expert on the exam, the documents will be reviewed at the RO by [b8] and myself. From the available information, the activity appears to be "In Scope." [b8] who is the EIC?)

Due to conflicts, ARD Laura Rapp and myself are now assigned to this bank regarding crypto matters. Sam Lutz is the assigned attorney.

Hopes this helps a bit, and maybe [b8] or other cc parties can add to and/or correct the above.

Regards,

[b8]

From: [b8]
Sent: Tuesday, December 20, 2022 4:43 PM
To: [b8]
Cc: Wampler, Bryan <BWampler@FDIC.gov>; [b8]
[b8]
Subject: RE: [b4,b8]

Thanks.

From: [b8]
Sent: Tuesday, December 20, 2022 2:41 PM
To: [b8]
Cc: Wampler, Bryan <BWampler@FDIC.gov>; [b8]
[b8] [b8]
Subject: RE: [b4,b8]

Hi **b8** I am very familiar with **b4,b8** We have spent a considerable amount of time over this entire year on **b4,b8** and **b4,b8** I have a conflict of interest with crypto matters, so **b8** is the Case Manager handling the specifics on this situation now. **b8** is also heavily involved. I have copied them on this reply and they may be able to provide you with additional information.

b8 may have also been involved with updating a memo this week on **b4,b8** and may be able to share it.

From: **b8**
Sent: Tuesday, December 20, 2022 2:33 PM
To: **b8**
Cc: Wampler, Bryan <BWampler@FDIC.gov>
Subject: **b4,b8**

Hi **b8**

I was asked by DRR management to reach out to you for any information you may have regarding **b4,b8** which we understand may have a fintech relationship or deposits with **b4,b8** The reason we are asking about **b4,b8** is that we also know **b4,b8** has a relationship with **b4,b8** Thus, we are curious about any indirect impact that **b4,b8** could have on IDs that have a relationship with **b4,b8** Do you have any information you could provide us?

Below is a short summary on **b4,b8** and their website is as follows: **b4,b8**

Thank you,

b8

b4,b8

b4,b8



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

New York Regional Office

MEMORANDUM TO FILE

DATE: July 26, 2022

TO: Files

THROUGH: Catherine H. Goñi
Assistant Regional Director

b8
Case Manager

FROM: **b8**
Trust Examination Specialist

SUBJECT: **b4,b8** - Crypto Related Assets Conference Call - Update

Attendees:

FDIC
b8 Trust Examination Specialist (TES)

b4,b8
b4,b8 SVP & Wealth Manager
b4,b8 Operations Manager

On 7/21/2022, a conference call was held with trust department management to obtain an update on the previously reported (4/11/22 & 6/30/2022) crypto-related holdings held in client accounts. The call was intended to obtain clarification on the assets and clients reported in the 6/30/2022 letter and request the retention letters previously requested on the 6/28/2022 conference call.

Operations Manager **b4,b8** stated that the 4/11/2022 and 6/30/2022 correspondence to the FDIC and subsequent discussions inadvertently excluded a client directed holding in **b4,b8** **b4,b8** held in the **b4,b8** account. SVP **b4,b8** clarified that there are currently three clients **b4,b8** that hold four crypto-related holdings. The crypto-related holdings are detailed on the table below.

TES **b8** requested the bank provide the FDIC with retention letters for all three clients to substantiate they were client-directed purchases and are being retained with client direction. Operations Manager **b4,b8** sent TES **b8** the retention letters for **b4,b8** **b4,b8** on 7/22/2022 and requested a signed authorization from **b4,b8** on 7/21/2022. On 7/26/2022, Operations Manager **b4,b8** provided the FDIC with a signed retention letter from **b4,b8** although it was dated 7/27/2022. Additional email correspondence with **b4,b8** confirmed that the client utilized an incorrect signature date. Supporting email communication between the bank and the client evidence a receipt date of 7/26/2022. Attached

b4,b8

to this memo is documentation supporting the retention authorization for each of the three clients, and the email chain confirming the request and receipt of information from **b4,b8**

b4,b8

The table below summarizes what crypto-related assets the trust department holds upon client direction in client accounts. As of 6/27/2022, all of the accounts have been negatively impacted by the recent market environment.

Crypto-Related Asset	Account Name	Number of Shares	Cost As of 4/15/2022	Market Value As of 7/21/2022
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b4,b8

b4,b8

b4,b8

b4,b8

b4,b8

b4,b8

b4,b8

From: [b4,b8]
To: [b8]
Cc: [b4,b8]
Subject: [EXTERNAL MESSAGE] RE: SECURE EMAIL: Crypto-related assets
Date: Wednesday, July 27, 2022 11:24:15 AM
Attachments: [b4,b8]

This message was sent securely using Zix[®]

[b8]

Sorry, I looked at the retention letter before sending and I thought the date was 7/22/22. [b4,b8] actually sent the request to [b4,b8] on 7/21 through e-mail. [b4,b8] e-mailed back the letter on July 26, 2022. I have attached the e-mail stream as support.

Kindest Regards,

[b4,b8]

--- Originally sent by [b8] on Jul 27, 2022 11:07 AM ---

This message was sent securely using Zix[®]

Good morning [b4,b8]

I just took a quick look at the retention letter you sent me yesterday, 7/26/2022. The date on the form is 7/27/2022 (today). Can you just send me a reply with the actual date you received the authorization from your client? We will place that notation in our files with the original copy you sent us.

Thanks!

[b8]

From: [b4,b8]
Sent: Tuesday, July 26, 2022 1:52 PM
To: [b8]
Cc: [b4,b8]
Subject: RE: [EXTERNAL MESSAGE] RE: SECURE EMAIL: Crypto-related assets

This message was sent securely using Zix[®]

Good afternoon [b8]

We have received back the signed retention from [b4,b8] for the [b4,b8] I have attached for your reference.

REL0000042418

Regards,

b4,b8

--- Originally sent by **b8** on Jul 22, 2022 11:00 AM ---

This message was sent securely using Zix[®]

Thank you **b4,b8** I will take a look at the information provided and be sure to get back to you with any questions!

I hope you have a great weekend! Stay cool!

b8

From: **b4,b8**
Sent: Friday, July 22, 2022 10:45 AM
To: **b8**
Cc: **b8**; **b4,b8**
Subject: [EXTERNAL MESSAGE] RE: SECURE EMAIL: Crypto-related assets

This message was sent securely using Zix[®]

b8

Good morning! I have attached a holders report for each of the accounts that hold the Crypto-related assets. This report will show the cost and market and last activity date for the security. I have also attached the retention letters for **b4,b8** (you may already have). We do not have a retention letter in the file for the **b4,b8** **b4,b8**. His last retention letter was November 2021 and the next would be November 2022. I have attached the 2021 letter so you can see that we actually do send one to him. I have attached the correspondence (3 e-mails) in the file related to the trade placed for **b4,b8** it shows his direction for the trade. In the meantime, I have requested that a current retention letter be sent to **b4,b8** to cover the Crypto-related asset, as you suggested would be best to have a current one.

It was really good meeting and speaking with you yesterday.

Please don't hesitate to contact me, should you need anything else.

Regards,

b4,b8

--- Originally sent by **b8** on Jul 21, 2022 12:34 PM ---

This message was sent securely using Zix[®]

REL0000042418

b4,b8

Thanks again for meeting. You should be able to respond to this email and it will remain secure. In an abundance of caution just make sure the 'SECURE EMAIL:' remains at the start of the Subject line – delete anything that may precede it if possible!

Best,

b8

b8

Trust Examination Specialist, Division of Risk Management Supervision

Federal Deposit Insurance Corporation

15 Braintree Hill Office Park, Suite 200

Braintree, MA 02184-8701

b6,b8

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December 19, 2022

Board of Directors

b4,b8

Subject: Notification of Engaging in Crypto-Related Activities

Dear Members of the Board:

Financial Institution Letter (FIL)-16-2022, Notification of Engaging in Crypto-Related Activities, issued on April 7, 2022, states that an FDIC-supervised institution that engages in, or intends to engage in, any crypto-related activities should notify the FDIC prior to engaging in the activity and provide a description of the activity in detail and a proposed timeline for engaging in the activity.

Bank management discussed with examiners during the October 17, 2022 Safety and Soundness examination that the bank is considering offering bitcoin buy/sell services to customers through third parties. The FDIC requested items during the examination to allow the FDIC to assess the safety and soundness and consumer protection implications of that activity. However, the bank was unable to provide the requested documentation, as it remains in the exploratory stages and has not determined a timeline to engage in any crypto-related activities. As such, please keep us updated as the bank progresses, including any determinations made and the proposed timeline for engaging in any crypto-related activity.

As stated in FIL-16-2022, the FDIC may request information necessary to allow the FDIC to assess the safety and soundness, consumer protection, and financial stability implications of such activities. Upon receipt, the FDIC will review the information received, request additional information as needed, and provide relevant supervisory feedback, as appropriate.

Notification submitted in response to FIL-16-2022 and written correspondence should be addressed to my attention at the FDIC Boston Area Office, and may be sent as a PDF document through the FDIC's Secure Email portal at securemail.fdic.gov using the following e-mail address: NYMailRoom@FDIC.gov.

December 19, 2022

This letter is confidential and may not be disclosed or made public in any manner under Part 309 of FDIC Rules and Regulations (12 C.F.R. Part 309). If you have any questions, please contact Case Manager **b8** at **b6** or Review Examiner **b8**

b8

at

b6

Sincerely,
Frank R. Hughes
Regional Director

cc:

b8

Federal Reserve Bank of Boston



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

Division of Risk
Management Supervision
816-234-8000
Fax 816-234-8182

February 15, 2022

MEMORANDUM TO: Correspondence File

FROM: **b8**
Case Manager

SUBJECT: **b4,b8**
Interim Bank Contact

I discussed the bank's condition with President **b4,b8** and CFO **b4,b8** on February 10, 2022. SACM **b8** also participated on the call. The bank was most recently examined by the FDIC on July 26, 2021, and was rated **b4,b8**.

President **b4,b8** advised that 2021 was a very good year for the bank despite the ongoing pandemic. The bank earned **b4,b8** which was nearly **b4,b8** over budget. The Sub S ROAA equaled **b4,b8** which compares to **b4,b8** in 2020. Contributing to the strong earnings performance was **b4,b8** in PPP fee income, strong income from the bank's mortgage operations, and low cost deposits. For 2022, the bank has conservatively budgeted net income of **b4,b8**. The budget projects **b4,b8** rate hikes, plus **b4,b8** monthly in PLLL. Through the first month of the year, the bank was **b4,b8** budget.

Asset quality is as clean as can be according to President **b4,b8**. The ACI ratio at the examination was **b4,b8** and it remains **b4,b8**. The lending focus remains the same, which is CRE, C&I, followed by 1-4 family. Loan volume **b4,b8** about about **b4,b8** in 2021 as the bank has some **b4,b8**. President **b4,b8** stated that loan growth projections for 2022 are in the **b4,b8** range (**b4,b8**). He noted that this will be a challenge.

There have been no changes in senior management or the board since the prior examination. Additionally, no major products or initiatives are planned. Following this conversation, we discussed the BSA/AML recommendations that were provided during the examination. Specifically, there were various recommendations involving the bank's **b4,b8** digital asset customers. CFO **b4,b8** stated that the bank reviewed all the recommendations and believes most of the recommendations were really good. The BSA/AML Policy and risk assessment were subsequently revised and approved by the Board in early February 2022. She noted that the **b4,b8** customers have been very transparent with the bank, and **b4,b8** in particular has taken a number of positive steps, including the hiring of a new chief BSA risk officer. The crux of our conversation involved the need for the bank to justify the volume of cash going through the institution and be able to access and review the underlying data of the **b4,b8** customers. CFO **b4,b8** stated that she believes we may be asking for more than what is required of the bank, but SACM **b8** reiterated the importance of knowing and understanding the cash activity involving these **b4,b8** customers. He stated that we are not asking the bank to exit these

REL0000042420

relationships, just to better understand their cash activity. The Customer Due Diligence Rule and Suspicious Activity Rule make up the legal basis for the recommendation. Under a risk focused approach, the bank is required to do more on higher risk accounts. Various options were discussed during the call regarding how to do this, including reviewing CTRs that are being filed by the digital asset customers, or reviewing any underlying concentration reports prepared and maintained by the [b4,b8] customers. CFO [b4,b8] committed to take further action to better understand the underlying cash transactions and determine if the digital asset customers are appropriately following their policies.

The Leverage ratio equaled [b4,b8] at December 31, 2021. The September 30, 2021, FDIC liquidity worksheet reveals a [b4,b8] Overall Liquidity Assessment and a [b4,b8] liquidity ratio. No information was gleaned from the phone call, or from the UBPR that would necessitate the examination frequency be adjusted. The next examination will be conducted by the [b8]



DATE: April 4, 2022

MEMO TO: Correspondence File – **b4,b8**

FROM: Daniel W. Holmgren, Assistant Regional Director

SUBJECT: **b4,b8** Relationship
with **b4,b8** to Conduct Crypto Asset Activities

On Monday, April 4, 2022, 11:30am CT, ARD Dan Holmgren called into (with Case Manager **b8**) a webex session with **b4,b8** and CRO **b4,b8** from **b4,b8**. We were aware that bank management had been working with **b4,b8** toward offering **b4,b8** customers a means to buy, sell, and/or hold Bitcoin through the bank.

I opened the call by introducing **b8** as the new Case Manager assigned to **b4,b8**. I then led into the **b4,b8** discussion by explaining that regulators are having much discussion on all aspects of digital assets, and that there are some that see some elements of principal activities in areas that were previously thought of as agency activities.

b4,b8 is still in the testing and risk-assessing stage with respect to any relationship with **b4,b8**. They've been looking at ways to offer simple digital currency services to their customers as part of a full array of product lines for their customers. Through the bank's internal monitoring systems, management recently determined that its customers have had at least **b4,b8** digital currency transactions totaling approximately **b4,b8**.

The bank has a high level executive committee overseeing the initiative. Risk assessment is ongoing. The bank's legal counsel is involved in the risk assessment process. Chief Risk Officer **b4,b8** views the initiative as a novelty that **b4,b8** seeks to offer its customers. Activity would be limited to buying, selling, and /or holding Bitcoin (i.e., no other digital currencies or assets). As a standard matter, any customer engaging in this product would have to first sign an agreement /acknowledgement that their Bitcoin transactions are with **b4,b8** rather than with the bank. There is a daily settlement process, and a **b4,b8** fee per transaction. **b4,b8** is not currently contemplating any other crypto-asset solutions or product offerings.

By the conclusion of the discussion it was clear that **b4,b8** would not go live with this product offering until they could be sure they could conduct the activities as agent, and that the FDIC would be satisfied that the activities were legally permissible.

b8

From: **b8**
Sent: Tuesday, April 5, 2022 7:08 PM
To: FDIC Kansas City Regional Office
Subject: **b4,b8** email only **b8**
Categories: **b8**

Please place email in RADD.

Thank you.

b8 Case Manager | Office Phone: **b6** | Cell: **b6** | 1100 Walnut Street, Suite 2100 | Kansas City, Missouri 64106 |

From: **b8**
Sent: Tuesday, April 5, 2022 3:15 PM
To: **b8**
Cc: **b8**; Gaddie, Stephen P. <SGaddie@FDIC.gov>
Subject: RE: Voice Message from **b6**

I just spoke to **b4,b8**. It sounds like he is in fact finding more and hasn't even pitched the idea to **b4,b8** et al. yet. Mr. **b4,b8** said that **b4,b8** the company that provides the bank's internet banking and mobile platforms is selling the idea. He is waiting on copies of the slides from **b4,b8** presentation, and he will forward them to us upon receipt. But essentially, the service would allow **b4,b8** customers to purchase Bitcoin and eventually expand to other types of Cryptocurrencies, similar to **b4,b8**. **b4,b8** would get a fee for facilitating the transaction. Mr. **b4,b8** thinks there would be interest in this service based on the number of **b4,b8** transactions he sees by the bank's customers, and the transactions generally range from **b4,b8**.

I told Mr. **b4,b8** that it is hard to opine without knowing exactly how they intend to implement the relationship. I talked to him about the interagency Request for Information and Comments on Digital Assets and the lack of clear-cut laws and guidance or even a regulatory direction. I also told him however, that we certainly have banks that engage in crypto-related activities. Regardless, we would require a detailed understanding of the product, robust policies and procedures, and maybe even additional capital. We talked about who would hold the risk in the transactions and making sure management had a solid understanding of **b4,b8** financial position (obtaining frequent financials); **b4,b8** ability/process/procedures for clearing transactions, and **b4,b8** potential need to keep margin on account at the bank.

I also told him that depending on what, if, they finally submit, we may have to run it through our Washington office.

Let me know if you disagree with anything I told him based on what he knows or if I forgot to disclose anything I should have.

Thanks,

b8
b8 Case Manager | Office Phone: **b6** | Cell: **b6** | 1100 Walnut Street, Suite 2100 | Kansas City, Missouri 64106 |

April 15, 2022

TO: Bank Correspondence File
[REDACTED] **b4,b8**

FROM: [REDACTED] **b8**
Field Supervisor

SUBJECT: RADD – April 15, 2022 - Meeting with [REDACTED] **b4,b8** to discuss bank's potential involvement in crypto related activity.

INFORMAL MEETING WITH MANAGEMENT

On April 15, 2022, Field Supervisor (FS) [REDACTED] **b8** met with [REDACTED] **b4,b8** President [REDACTED] **b4,b8** [REDACTED] **b4,b8** to clarify whether or not the bank was engaged in crypto related activity.

[REDACTED] **b4,b8** indicated the bank is part of a BETA Pilot with [REDACTED] **b4,b8** but they are not live (there have been no transactions). Their provider is [REDACTED] **b4,b8** and it could be up to a year before they are able to move forward with anything. He was aware of the FIL that came out on April 7th, but since he felt like they were so far off from potentially going live (or that it might not happen at all) he didn't think there was much to notify us about. He asked who he should notify if they plan to continue moving forward and he was directed to keep the CM/RE and the [REDACTED] **b8** in the loop.

FS [REDACTED] **b8** informed [REDACTED] **b4,b8** that the FDIC is looking closely at these types of services from a nationwide perspective so there will likely be additional communication from us and we welcome additional discussions with the bank about potential crypto activities at any time.



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

Division of Risk
Management Supervision
816-234-8000
Fax 816-234-8182

April 22, 2022

MEMORANDUM TO: Correspondence File

FROM: [b8]
Case Manager

SUBJECT: [b4,b8]
Digital Asset Customers – Discussion with Bank Management

EVP [b4,b8], along with bank BSA personnel [b4,b8] and [b4,b8] provided an update regarding the bank's digital asset customers to Case Manager [b8] SACM [b8] and SE [b8] on April 22, 2022. Refer to the February 15, 2022, IBC memo in RADD and the July 2021 FDIC examination for background information.

EVP [b4,b8] provided an update on the bank's progress in addressing our prior recommendations. She stated that the bank has recently completed its analysis of CTR data for [b4,b8] digital asset customers. For that customer, the bank gathered CTR data for [b4,b8]. That data was transported to an Excel worksheet and the bank then conducted a judgmental sample. The result was the identification of approximately [b4,b8] customers who had routine large deposits into the kiosks. EVP [b4,b8] stated that [b4,b8] then discussed these with the bitcoin operator and reviewed its policies with respect to the customers and determined what the bitcoin operator was/is doing with respect to these customers. He determined that the bitcoin operator is following its policies with respect to these customers. EVP [b4,b8] acknowledged that a lot of these cash deposits were large but did not seem to believe that they are necessarily suspicious based on the business line of the bitcoin operator. At this point, EVP [b4,b8] stated that the bank does not appear to be "[b4,b8]" with respect to these transactions; therefore, she stated that the bank needs further guidance from the FDIC with respect to what to do next. She agreed that many of the cash deposits are certainly large, but she does not believe the bank has the information necessary to determine that they are suspicious. She noted that the bitcoin operator is a legal business and is following its policies.

Regarding EVP [b4,b8] comments, SACM [b8] noted that the bar for being a suspicious activity is low, and that it can reasonably be assumed that many of these deposits would be suspicious in nature. SACM [b8] laid out all the potential red flags regarding these deposits and concentrations of customers, and also discussed in length the importance of due diligence that is required by the bank. EVP [b4,b8] stated that it is unclear to her what further action is required from the bank. Once again, SACM [b8] stated that CDD and EDD needs to be very comprehensive for these customers. EVP [b4,b8] stated that she believes the FDIC has made a determination that banking these [b4,b8] customers is not ok. SACM reiterated that we are not requiring the bank to exit the business, but to conduct more due diligence, look at the potential red flags, and provide the bank's board with the results. The decision whether or not to continue

REL0000042425

to bank these customers should be a business decision made by the board after review of the additional information.

EVP **b4,b8** stated during the call that the bank wants to do what is right and will certainly exit these relationships if necessary, but she seemed to be of the opinion that the bank has limited responsibility because there is a gap between (the **b4,b8** digital asset customers) with the individuals that are conducting the cash transactions. She noted that other businesses (e.g. used car dealers) have customers who buy vehicles with cash, and there are no concerns. SACM noted that it all comes back to the due diligence aspect. EVP **b4,b8** stated that the bank may at least begin filing SARs, and SACM **b4,b8** noted that this would be a first step in the process.

EVP **b4,b8** expressed her appreciation with us in discussing this issue and providing further guidance on what needs to be done. She stressed that she is a rule follower and wants the bank to do what is right with respect to these customers.

EVP **b4,b8** stated that the plan going forward is to conduct the CTR review of the **b4,b8** digital asset customer. Additionally, the bank is scheduled for an external BSA audit in May. EVP **b4,b8** noted that she believes the bank can complete this additional review, get the findings from the BSA audit, then present a lengthy package of the results of both the audit and the bank's findings from the CTR reviews, in the next **b4,b8** months. She will provide this package to the board, and it will include examples describing the activity of individual customers. The regional office will send the board a letter briefly summarizing the April 22, 2022, discussion. We will also schedule another call with EVP **b4,b8** after the audit and additional review is completed, likely around July 2022. I will also request that Director **b4,b8** participate on the call. His family owns the bank, and he is also the president of the affiliated **b4,b8**. **b4,b8** I have a good working relationship with **b4,b8** and believe that his participation on the call would be beneficial.

From: [b8]
To: FDIC Chicago Regional Office
Subject: FW: Please RADD
Date: Tuesday, May 17, 2022 10:22:39 AM
Attachments: DOC050422-05042022113909.pdf

PDF Email and Attachment

Business Line: RMS
Bank Name: [b4,b8]
City, State: [b4,b8]
Folder: Correspondence
Source: Bank
Doc Name: Miscellaneous
Description: Notification of Engaging in Crypto-Related Activities

From: Cone, Kristy J. <KCone@FDIC.gov>
Sent: Tuesday, May 17, 2022 10:31 AM
To: Newbury, Christopher J. <CNewbury@FDIC.gov>; Bottone, Gregory P. <GBottone@FDIC.gov>
Cc: [b8]
Subject: FW: [EXTERNAL MESSAGE] FDIC disclosure for Crypto

FYI.

From: [b8]
Sent: Tuesday, May 17, 2022 8:52 AM
To: Cone, Kristy J. <KCone@FDIC.gov>; CHI Em Tech Group <CHIEmTechGroup@FDIC.gov>
Subject: FW: [EXTERNAL MESSAGE] FDIC disclosure for Crypto

Good morning,

Please see the attached notice from [b4,b8] regarding its [b4,b8] investment in [b4,b8]
[b4,b8] Its advertised
services include [b4,b8]
CEO [b4,b8] states in this notice that the bank has no exposure to digital assets at this time and that the purpose
of the investment is to [b4,b8]
[b4,b8]

In addition, [b4,b8] email below notes that [b4,b8] is looking to "start a conversation" regarding digital assets
with the regulatory agencies and wants to know the best way to make this contact, which I'm assuming would need to
occur at the WO level or require significant WO consultation first.

I've included the Em Tech Group on this email so that they're aware and can share any insights they may have, but
please let me know if I need to loop in anyone else at this time.

Thanks,

[b8]
Case Manager, Division of Risk Management Supervision
Chicago Regional Office
[b6,b8]

REL0000042428

From: [REDACTED] **b8**
Sent: Tuesday, May 17, 2022 7:59 AM
To: [REDACTED] **b8**
Subject: FW: [EXTERNAL MESSAGE] FDIC disclosure for Crypto

Good morning: [REDACTED] **b8**

As you can see below, the entity [REDACTED] **b4,b8** invested in is requesting a meeting with the regulatory agencies. The company is [REDACTED] **b4,b8** CEO [REDACTED] **b4,b8** submitted their notification of a relationship with [REDACTED] **b4,b8** on May 3rd, which is attached.

Does this workflow go through you or the Emtech group? If it's Emtech, I'll forward this on to [REDACTED] **b8**

Let me know how to proceed.

Thanks,

[REDACTED] **b8**

[REDACTED] **b6**

[REDACTED] **b8**
Supervisory Examiner, Division of Risk Management Supervision
Federal Deposit Insurance Corporation

[REDACTED] **b8**

[REDACTED] **b6,b8**

From: [REDACTED] **b4,b8**
Sent: Monday, May 16, 2022 3:38 PM
To: [REDACTED] **b8**
Subject: RE: [EXTERNAL MESSAGE] FDIC disclosure for Crypto

[REDACTED] **b8**

I assume you saw that we submitted this disclosure.

The company that we invested in is looking to make a connection with the regulatory agencies and we are wondering what would be the best way to go about doing that? My understand is that they are interested in starting a conversation on all things crypto/digital asset related and begin a relationship.

b4,b8

b4,b8

VIA ELECTRONIC MAIL ONLY

Mr. Gregory Buttone
Regional Director, Federal Deposit Insurance Corporation
South Riverside Plaza, Suite 1700
Chicago, Illinois 60606
May 3, 2022

RE: Notification Letter Under FIL-16-2022 pertaining to Crypto-related Activities

Dear Regional Director Buttone,

I write regarding the above-referenced Financial Institution Letter ("FIL") pertaining to crypto-related activities and associated disclosures thereunder. After the release of the FIL, Bank President **b4,b8** reached out to **b8** from the **b8** FDIC Field Office to determine the necessity of disclosing a small **b4,b8** investment from the Bank's subsidiary. **b4,b8**

b4,b8

b4,b8 The purpose of making this investment is to develop a stronger understanding of the digital asset space and to establish partnerships that can facilitate access to this asset class in the future, as discussed in greater detail below.

To be clear, the **b4,b8** presently has no exposure to digital assets, and we would not venture into that space without additional authorization from the FDIC and **b8**. **b8** Moreover, we broadly agree with the tone of the FIL, which highlights many of the risks associated with this asset class. Personally, I have a great deal of discomfort with a cryptocurrency, such as bitcoin, where the origin is unknown. And I have very significant concerns that by losing control of the alternative money supply, our government has lost some of the critical tools to manage the economy. For much of the last decade, I have operated the Bank on the assumption that the federal government would intervene to significantly limit or regulate these assets.

Unfortunately, I was wrong. The federal response has been piecemeal and slow; in the meantime, the train appears to have left the station or is quickly gathering steam. In the absence of clear guidance, banks like ours are forced to develop expertise and frameworks to service the present and future needs of our customers (some of whom are already moving assets out of the Bank and into digital assets). Moreover, smaller banks—which are already struggling under the weight of a decade of compressed net interest margins, wage inflation, a non-taxed competitor, technology behemoths, ageing depositors, and rising regulatory costs—are being forced to look for new business lines to differentiate and thrive. Digital assets are clearly one such avenue that requires consideration. In my

b4,b8

opinion, it is critical that banks and regulators wade carefully, but together, into these uncharted waters or risk being washed away in the flood that will come.

To my mind, this requires some nuance in acknowledging that not all digital assets are or will be the same and may require an adaptive regulatory stance. For instance, stablecoins are very different instruments than cryptocurrencies that are not pegged to the dollar, and the ability to leverage blockchain technology to move these assets securely, transparently, and efficiently will be an important piece of the digital economy.

These opportunities are more than hypothetical. The Bank has had conversations

b4,b8

b4,b8

b4,b8

This very use case was highlighted by immigrant and former FDIC Chairwoman, Jelena McWilliams, in a speech last October: "Over the past couple of years, we have seen a dramatic increase in the use of stablecoins, primarily to facilitate converting crypto-assets into fiat currency. But stablecoins have several other potential uses. Several firms, including existing stablecoin issuers, are actively exploring the potential for stablecoins to serve as a mechanism for retail payments. We have also seen banks establish limited payment networks for commercial customers to transfer funds using tokens in near-real time."

Although we are in the early stages of these discussions, we see an opportunity for the Bank to broaden its understanding of how this asset class will work and execute a series of small experiments—with transparency to our regulators—that validate or disprove our assumptions while building confidence in our policies and procedures to appropriately manage risk. We look forward to your guidance in facilitating this process. Thank you for your consideration and please feel free to contact me if you would like to discuss this matter further.

b4,b8

Chief Executive Officer

b4,b8

Cc

b8



Federal Deposit Insurance Corporation
Division of Risk Management Supervision
Chicago Regional Office
300 South Riverside Plaza, Suite 1700
Chicago, IL 60606
Telephone: (312) 382-7500
Fax: (312) 382-6901

b8

May 31, 2022

Board of Directors

b4,b8

Members of the Board:

We have received your correspondence dated May 9, 2022 and submitted by Executive Vice President **b4,b8** regarding the Banks' cryptocurrency activities. Upon review of the correspondence we would like to request the following information for further review:

- **b4,b8** Questionnaire
- Updated risk assessment, including digital asset risk assessment
- **b4,b8** Policy
- Procedures related to holding cryptocurrency in a directed trust

Additionally, please provide further details regarding the account containing cryptocurrency currently being held by the Wealth Management Department. Specifically, notate the cryptocurrency being held and if the Bank has any investment authority or responsibility for the cryptocurrency. Also, describe the controls utilized to maintain the security of the private key/password of the cryptocurrency held in trust. In addition, describe any plans for third party partnerships related to current or expected cryptocurrency activities. Lastly, provide details on any cryptocurrency insurance coverage that the institution has obtained.

Please provide the requested information by July 15, 2022. If an item is in-process of being completed, report the expected completion date in the correspondence and provide upon completion. Information can be mailed to the addresses located in the letterhead or may be sent via the FDIC Secure Email Portal at ChiMailroom@fdic.gov and to **b8**
Contact FDIC Case Manager **b8** or **b6** or **b8**
b8 at **b6** or **b8** with any questions or comments.

Sincerely,

Regina L. Hayes
Assistant Regional Director
Federal Deposit Insurance Corporation

b8

cc: Federal Reserve Bank of Cleveland

REL0000042429

b8

From: b8
Sent: Thursday, December 07, 2023 10:27 AM
To: FDIC San Francisco Regional Office
Subject: RADD Room
Attachments: Follow-up b4,b8 Crypto Related Activity Memo.docx; DRAFT b4,b8 Crypto Related Activity Letter.docx
Categories: Gold

NONPUBLIC//FDIC INTERNAL ONLY

a. Include email: **Yes**
b. Institution Name b4,b8
c. City: b4,b8
d. State: b4,b8
e. Division: **RMS**
f. Folder: **Correspondence**
g. Source: **RO**
h. Doc Name: **Miscellaneous**
i. Description: b4,b8 **Crypto Related Activity Memo and Letter to WO**

Thank you,

b8

Case Manager, RMS

Federal Deposit Insurance Corporation

25 Jessie Street

San Francisco, CA 94105

b6,b8

b8

FDIC

From: Shaffer, Justin <jushaffer@FDIC.gov>

Sent: Thursday, July 7, 2022 1:07 PM

To: Muraywid, Sumaya A. <SMuraywid@FDIC.gov>; Macias, Sandra <SMacias@FDIC.gov>;

b8

b8

Cc:

b8

b8

Cheng, Louis C.C. <LCheng@FDIC.gov>; Worthing,

Paul P. <PWorthing@FDIC.gov>

Subject: b4,b8 Crypto Related Activity Memo/Letter to Bank

For your review and concurrence, please see the attached memo to file and the Region's proposed draft letter to the subject bank regarding our request for their formal notification of crypto-related activity under FIL 16-2022. Please reach out with any additional questions.

Justin Shaffer

Acting Assistant Regional Director-Detailee

Division of Risk Management Supervision

San Francisco Region

b6

Email: jushaffer@fdic.gov



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 XX, 2022

Via Electronic Mail

b4,b8

Subject: *Determination of Financial Institution Letter (FIL) 16-2022 Applicability*

Dear **b4,b8**

Thank you for contacting us regarding a prospective banking relationship with crypto-currency exchange company **b4,b8**. If management intends to further pursue the activities discussed with Case Manager **b8** on June 21, 2022, please provide the FDIC with a formal notification as requested in Financial Institution Letter (FIL) 16-2022.

In anticipation of such notification, we request that management provide the following information as part of the notification:

- How does the proposed relationship fit into the bank's strategic plan? Provide any change in the bank's strategy as a result of the contemplated relationship, including liquidity and capital management plans, contingencies, and stress testing and/or scenario analysis.
- Does management anticipate entering into legal contracts with **b4,b8**? If so, please provide the draft contract(s).
- Provide more details regarding the anticipated structure and functionality of the proposed omnibus FBO account including the rationale for the **b4,b8** account structure mentioned on the June 21, 2021 call with CM **b8**.
- What is the anticipated overall size and daily activity of the proposed for benefit of (or FBO) account in both dollars and number of **b4,b8** accounts or wallets?
- How will management limit the size of the account(s) or raise additional capital if for example, deposits exceed projections?
- How will management evaluate the staffing capacity (# and expertise) needed to oversee the proposed depositor relationship?
- Provide the bank's due diligence for activities related to **b4,b8** including the prospective offering of merchant processing services. Given that **b4,b8** reports itself as

b4,b8

b4,b8

what additional risks are perceived and what additional risk management controls are contemplated?

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- What is the perceived change in Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT) profile, including the volume of domestic and/or foreign transactions and planned enhancements to the institution's AML/CFT infrastructure to handle the volume?
- What is the perceived change in information security profile and resulting controls within the technology environment?
- How does **b4,b8** disclose the applicability of federal deposit insurance?
- Who will be responsible for researching and resolving customer disputes covered by Electronic Fund Transfers (Regulation E)?
- Who will provide customer support for customer inquiries or complaints involving the **b4,b8** deposit accounts?
- Describe how the bank will monitor advertisements related to the **b4,b8** deposit accounts.
- Provide draft or finalized scope of work and engagement letter(s) for any current or anticipated consulting work performed by outside counsel regarding the prospective relationship with **b4,b8**

Please contact Case Manager **b8** or **b6,b8**, with any questions regarding this letter.

Sincerely,

/s/ Justin Shaffer

Justin Shaffer
Acting Assistant Regional Director

cc:

b8

OFFICE MEMORANDUM

Federal Deposit Insurance Corporation

DATE: July 7, 2022

To: Sandy Macias
Chief, RMAS, RMS

Sumaya Muraywid
Senior Examination Specialist, RMS

b8

Compliance Technology Specialist, DCP

Through: Justin Shaffer
Acting Assistant Regional Director, RMS

b8

Senior Examination Specialist, RMS

b8

Compliance Technology Specialist, DCP

From: b8
Case Manager, RMS

b8

Review Examiner, DCP

Subject: Recommendation that b4,b8 prospective banking relationship with crypto-currency exchange, b4,b8 should be considered "crypto-related activities" within the scope of FIL-16-2022 and request a formal notification to the FDIC

Re: b4,b8

Purpose

This memo is a recommendation by the San Francisco Regional Office (SFRO) to consider the prospective banking relationship between b4,b8 b4,b8 as "crypto-related activities" under FIL-16-2022 and request that b4,b8 submit a formal notification consistent with the FIL. This memo is also a follow-up to a June 15, 2022, Office Memorandum that provided background on the financial institution, including the most recent regulatory assessments, as well as the limited information known about prospective

- Bank management would require a “[b4,b8]” of [b4,b8] marketing documentation as well as “[b4,b8].”
- The intended purpose for [b4,b8] customer ACH and wire transfers will be to allow [b4,b8] customers to deposit and withdrawal U.S. dollars from [b4,b8] accounts or “wallets” via ACH or wire transfer methods.
 - President [b4,b8] provided an example as: [b4,b8] customer banks with [b4,b8] [b4,b8] and submits a digital asset purchase order within [b4,b8] platform. The order would initiated an ACH debit from the [b4,b8] deposit account and into [b4,b8]’s operating account at [b4,b8]. In exchange, digital assets would be placed in customer’s [b4,b8] account.
- Bank management is also considering offering merchant processing services, allowing [b4,b8] customers to fund their [b4,b8] account with funds from a debit card instead of ACH or wire using routing number information. No additional services were being contemplated.
- CM [b8] questioned if the proceeds or payments of [b4,b8] loans collateralized by crypto-assets would be processed through either the prospective operating or FBO account(s). It was apparent management had not previously contemplated these transactions. Management acknowledged that loan disbursements and payments could be processed through either the operating account or the FBO account depending on how the [b4,b8] customer sets up payment and disbursement methods within the [b4,b8] platform. For example, if the customer selected that they wanted loan proceeds to be deposited as U.S. fiat currency in their individual [b4,b8] account or “wallet” then funds would be transferred to the FBO account and earmarked for that individual.

FIL-16-2022 Applicability Assessment and Recommendation

The SFRO recommends that the prospective banking relationship with [b4,b8] should be considered “crypto-related activity” under the FIL because management’s answers up to this point do not illustrate robust understanding of the size and complexity of activity or a sufficient understanding of the potential risks inherent in the activity and/or the necessary controls for proper mitigation. In addition, during the June 21, 2022 telephone discussion, bank management acknowledged an additional potential source of funds for the FBO account which they had not previously considered: digital asset secured loan disbursements. While [b4,b8] proposed activities with [b4,b8] do not meet the definition of “crypto-related activities” in the FIL’s footnote 2, the FIL provides flexibility for other activities that may fall within the scope of the FIL and states that, “...the FDIC is concerned that crypto assets and crypto-related activities are rapidly evolving, and risks of this area are not well understood given the limited experience with these new activities,” and the region is prudently applying the discretion to this case.

Following WO concurrence that the described activity qualifies as crypto-related activity and falls within the scope of the FIL, the SFRO will send the enclosed letter to [b4,b8] informing management of the notification request should management further pursue the relationship with [b4,b8]

Enclosure: “DRAFT [b4,b8] Crypto Related Activity Letter.docx”

July 13, 2022

MEMORANDUM TO: File

FROM:

Case Manager **b8** and **b8**

SUBJECT:

b4,b8
Cryptocurrency Response

On July 1, 2022¹ management provided the following information for review: **b4,b8**
b4,b8 (Policy), **b4,b8** Risk Assessment, **b4,b8** form, **b4,b8**
b4,b8 BSA Risk Assessment, CDD Policy, and New Account CDD Questionnaire.

Additionally, on July 7, 2022 Case Manager **b8** spoke with Trust Specialist **b4,b8** about the: Policy, **b4,b8** Risk Assessment, and **b4,b8** The following concerns were noted.

1. While the Risk Assessment states that “I **b4,b8** **b4,b8**” the policy does not outline cryptocurrency custodian expectations or requirements.
2. Also, the Policy does not specify how/where the “keys” to the cryptocurrency wallet are maintained. And if they are maintained at the Bank, what controls are in place to ensure security.
 - a) Without the keys, the bank cannot liquidate the cryptocurrency. As such, how will the bank comply with their Policy to “I **b4,b8** **b4,b8**”?

The following additional commentary was provided by management regarding the account:

b4,b8

1. The Trust account was funded with **b4,b8** shares of Bitcoin (each share valued at **b4,b8** as of July 7, 2022).
2. The Trust document is drafted with the Bank serving exclusively as Trustee, and the Trust grantor, **b4,b8** as the investment manager of the Trust.
3. The Bitcoin is custodied at the **b4,b8** cryptocurrency exchange.
4. The Grantor of the Trust transferred the Bitcoin from his personal “wallet” (held under private key) to the **b4,b8** custody account which now holds the cryptocurrency in “vault” formation. As Trustee, and owner of the **b4,b8** custody account, the Bank does

¹ Received July 6, 2022 since the information appears to have been mailed into the RO.

² A **b4,b8** cryptocurrency exchange and custody platform based in San Francisco, CA.

not utilize the traditional “key” methodology associated with wallets. Instead, the Bank has a password to access the account.

5. The Bank has no plans for 3rd party partnerships related to cryptocurrency activity. The Bank does maintain a custody account agreement with [b4,b8] for the [b4,b8]

Below are potential questions/documentation requests to consider:

- Should the Policy outline controls over password security and testing access to the cryptocurrency account?
- It appears that the bank is acting as custodian of the Bitcoin or is it only custodian of the account holding the Bitcoin? Should a copy of the custody agreement be obtained?
- Obtain details about the Bank’s access to the cryptocurrency? Ex: What does the Bank’s password allow the bank to do (sell crypto or just monitor value)?
- Is [b4,b8] going to be the Bank’s custodian of choice for any other Trust accounts that hold digital assets?
- Should we request the [b4,b8] Risk Assessment for the [b4,b8]
- The [b4,b8] Risk Assessment notes that for accounts with a risk factor related to “[b4,b8] [b4,b8]” an additional questionnaire is necessary. Should the questionnaire be requested?

Lastly, on July 11, 2022 RMS ARD Hayes, DCP ARD Richardson, Regional Counsel Tynan, CM [b8] SE [b8] and Trust Specialist [b8] met to discuss the items provided and items outlined in this memo. The memo was updated accordingly.



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

New York Regional Office

MEMORANDUM TO FILE

DATE: July 26, 2022

TO: Files

THROUGH: Catherine H. Goñi
Assistant Regional Director

b8

Case Manager

FROM: b8
Trust Examination Specialist

SUBJECT: b4,b8 Crypto Related Assets Conference Call - Update

Attendees:

FDIC

b8

Trust Examination Specialist (TES)

b4,b8

b4,b8

SVP & Wealth Manager
Operations Manager

On 7/21/2022, a conference call was held with trust department management to obtain an update on the previously reported (4/11/22 & 6/30/2022) crypto-related holdings held in client accounts. The call was intended to obtain clarification on the assets and clients reported in the 6/30/2022 letter and request the retention letters previously requested on the 6/28/2022 conference call.

Operations Manager b4,b8 stated that the 4/11/2022 and 6/30/2022 correspondence to the FDIC and subsequent discussions inadvertently excluded a client directed holding in b4,b8 b4,b8 held in the b4,b8 account. SVP b4,b8 clarified that there are currently three clients b4,b6,b8 that hold b4,b8 crypto-related holdings. The crypto-related holdings are detailed on the table below.

TES b4,b8 requested the bank provide the FDIC with retention letters for all b4,b8 clients to substantiate they were client-directed purchases and are being retained with client direction. Operations Manager b4,b8 sent TES b8 the retention letters for Mr. b4,b6,b8 and Mr. b4,b6,b8 on 7/22/2022 and requested a signed authorization from Mr. b4,b6,b8 on 7/21/2022. On 7/26/2022, Operations Manager b4,b8 provided the FDIC with a signed retention letter from Mr. b4,b6,b8, although it was dated 7/27/2022. Additional email correspondence with Ms. b4,b8 confirmed that the client utilized an incorrect signature date. Supporting email communication between the bank and the client evidence a receipt date of 7/26/2022. Attached

b4,b8

to this memo is documentation supporting the retention authorization for each of the **b4,b8** clients, and the email chain confirming the request and receipt of information from Mr.

b4,b6,b8

The table below summarizes what crypto-related assets the trust department holds upon client direction in client accounts. As of 6/27/2022, all of the accounts have been negatively impacted by the recent market environment.

Crypto-Related Asset	Account Name	Number of Shares	Cost As of 4/15/2022	Market Value As of 7/21/2022
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b4,b8



July 28, 2022

MEMORANDUM TO: Correspondence File

FROM: [b8]
Case Manager (CM)

SUBJECT: [b4,b8]
Potential Crypto Activity Meeting with Washington Office (WO) and related correspondence

PARTICIPANTS: RMAS Acting Section Chief Jason P. Ahrenholtz
Senior Examination Specialist (SES) Sumaya A. Muraywid
Compliance Technology Specialist [b8]
Examination Specialist [b8]
Assistant Regional Director (ARD) Richard E. Allen
ARD Jennifer A. Ball
Review Examiner [b8]
Supervisory Examiner (SE) [b8]

PURPOSE

SES Muraywid requested this meeting to discuss what crypto-related information the examination team obtained and reviewed while onsite at [b4,b8]. All participants noted above met via Microsoft Teams on July 28, 2022. The Safety and Soundness (S&S) examination commenced on May 27, 2022, and had concluded onsite activities at the time of this meeting.

SUMMARY OF EVENTS

April 07, 2022: FDIC issues Financial Institution Letter (FIL)-16-2022 *Notification of Engaging in Crypto-Related Activities*
<https://www.fdic.gov/news/financial-institution-letters/2022/fil22016.html>

April 12, 2022: By letter, [b4,b8] notifies the FDIC, per FIL-16-2022, that the bank is considering engaging in crypto-related activity consisting of partnering with [b4,b8] who has partnered with [b4,b8]. The letter details that the platform will be [b4,b8] buy-sell-hold model, which is integrated into [b4,b8] retail online platform. The letter further states that [b4,b8] will be the custodian of crypto assets. See RADD to review the letter.

May 25, 2022: CM [b8] discussed the proposed S&S examination scope with Examiner-in-Charge and SE [b8]. CM [b8] requested a summary on the bank's plans for engaging in crypto activity and any due diligence completed. Refer to the May 26, 2002, *Exam Planning Memo* in RADD.

June 17, 2022: SES Muraywid emailed CM [b8] and ARD Allen to enter the bank on the [b7(E),b8] [b7(E),b8]. See attached email.

June 17, 2022: CM [b8] updated [b7(E),b8] but indicated that the notification did not fall under the scope of subject FIL. As understood, proposed third party activity is not covered as the bank is to process the non-crypto side of any transaction with the third party (and their partners) handling the crypto side and bearing the associated risks.

July 01, 2022: SES Muraywid emailed CM [b8] and ARD Allen requesting a change in [b7(E),b8] to reflect that the proposed activity is within the scope of the FIL as "Facilitating Customer Buy/Sell with [b4,b8] as the third party".

July 05, 2022: EIC [b8] provided an update to file on the bank's proposed crypto activity.

July 06, 2022: CM [b8] updated [b7(E),b8] as requested by WO, to reflect that the proposed activity fell within the scope of the FIL and included the following narrative:

During the exam planning stage, [b4,b8] President [b4,b8], Chief Lending Officer [b4,b8] and Chief Financial Officer [b4,b8] commented that the bank was looking into Crypto currency as part of a customer rewards program facilitated through [b4,b8] the bank's IT service provider. Subsequently at the exam exit meeting, Chief Operations Officer [b4,b8] said the bank is likely going to implement the [b4,b8] crypto platform that will be part of their mobile banking app through [b4,b8] the bank's service provider. [b4,b8] have entered into an agreement to conduct/process the crypto activity. The bank plans to offer crypto currency purchases as a way to retain and attract customers. [b4,b8] would be one of [b4,b8] beta testing banks for the [b4,b8] application. [b4,b8] COO [b4,b8] said that [b4,b8] [b4,b8] Per COO: [b4,b8] within the bank's mobile app if a customer desires to purchase crypto currency, the customer would be taken to [b4,b8] site through a single sign-on app. The customer would be notified that they are leaving the [b4,b8] site and that [b4,b8] products are not FDIC-insured. The bank's customer would have to open/establish an account with [b4,b8] before any activity could take place or before the [b4,b8] link would be activated in the mobile banking app. The crypto platform would initiate real time funds transfers from a customer's checking account to buy or sell crypto currency. [b4,b8] will maintain all recordkeeping of crypto activity (buy/sell) and balances. The crypto balances are not on the bank's general ledger, they are maintained at [b4,b8] site. Only the debit/credits flow through the bank customers' checking accounts. The bank plans to implement this activity in [b4,b8]. The bank plans to implement the crypto rewards program at a later date in [b4,b8].

July 28, 2022: SES Muraywid stated she will provide the joint RMS/DCP WO request list template to the Region for review and customization. SE [b8] plans to reach out to management and discuss outstanding request list items after he receives the WO template. SES Muraywid further stated she would set-up a SharePoint site to share/access request list documents and invite the participants listed above.

b8

From: Muraywid, Sumaya A.
Sent: Friday, June 17, 2022 9:29 AM
To: **b8** Allen, Richard E.; **b8**
Cc: Macias, Sandra; **b8**
Subject: Crypto Notification Letters

All,

Please enter the **b4,b8** (4/12/22) and **b4,b8** (4/20/22) notification letters regarding crypto-related activity to the tracking system by COB Tuesday.

We'll be in touch to discuss the activity and address next steps in the near future.

Thanks
Sumaya

b8

From: Muraywid, Sumaya A.
Sent: Friday, July 01, 2022 1:42 PM
To: **b8**, Allen, Richard E.
Cc: Macias, Sandra; N **b8**
Subject: Crypto - **b4,b8**

Hi **b8** and Rick,

I wanted to touch base on the **b4,b8** crypto notification. In the tracking system, it reflects that the activity is not within the FIL scope. However, based on the letter, it does appear to be in scope. Please let me know if you'd like to chat and I'll set up time for next week. Otherwise, if you could change it to "Yes" within scope and add it as an associated activity (Facilitating Customer Buy/Sell, with **b4,b8** as the third party), that would be great. We are working on a template letter and request list for this particular type of activity and hope to have it out to the regions in the near future.

Have a good fourth,
Sumaya

b8

From: b8
Sent: Monday, August 22, 2022 1:49 PM
To: FDIC San Francisco Regional Office
Cc: b8
Subject: FW: Secure E-mail [EXTERNAL MESSAGE] crypto

RADD Upload Request

Include email: Yes
Institution Name: b4,b8
City & State: b4,b8
Division: RMS
Source: Bank
Folder: Correspondence
Doc Name: Letter from Bank
Description: 5/23/2022 Follow-up Email From b4,b8 on Prospective FBO Omnibus Deposit Account for b4,b8

Thank you.

b8

Case Manager, RMS
Federal Deposit Insurance Corporation
25 Jessie Street
San Francisco, CA 94105

b6,b8

FDIC

From: b4,b8
Sent: Monday, May 23, 2022 2:50 PM
To: b8
Subject: RE: Secure E-mail [EXTERNAL MESSAGE] crypto

This message was sent securely using Zix®

Hi b8

Would you have time to discuss b4,b8 a bit further?

I mentioned 'depository services' in my initial email below, one angle of the b4,b8 relationship that we are exploring is a deposit FBO account.

b4,b8 has a digital wallet on their platform for each and every customer of theirs. The idea is to have one single 'omnibus' FBO deposit account here at b4,b8 housing the US dollars in those accounts.

Among other things, we understand that some of the rules for that account would be:

- No co-mingling other monies into this account. Not used for operational purposes.
- We will need daily reports showing the sub-ownership of the funds.

- We need the ability to access and review KYC on customers whose money is in the FBO account.
- High level of sensitivity and oversight around disclosures, marketing messages etc.

One question that we have internally, is how this pivots the relationship?

- How are these examined?
- Would this be viewed in the same light as a lending strategic partner?
- What other examination expectations exist?
- Intensity around fourth party vendor management?
- Similar to lending strategic partners, would we be required to ensure that **b4,b8** has a backup servicer for their deposit accounts, etc?

Thanks

--- Originally sent by **b8** on May 3, 2022 1:32 PM ---

This message was sent securely using Zix +

Hi **b4,b8**

Unfortunately, I have not been able to get a answer yet on my question of the FIL's applicability for providing commercial banking services to a crypto-currency exchange. I will be in touch once I hear back but in the meantime please continue under assumption that the FIL does not apply to the activity that you originally described on Monday, April 25th.

Sorry for the delay on my end,

b8

Case Manager, RMS

Federal Deposit Insurance Corporation

25 Jessie Street

San Francisco, CA 94105

b6,b8

From: **b4,b8**
Sent: Tuesday, April 26, 2022 11:44 AM
To: **b8**
Subject: RE: Secure E-mail [EXTERNAL MESSAGE] crypto

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Wonderful, thanks!

--- Originally sent by [b8] on Apr 26, 2022 11:05 AM ---

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Hi [b4,b8]

I agree it is not very clear so I have requested clarification from my Washington, DC office and I will let you know when I hear back from them.

Thank you,

[b8]

From: [b4,b8]
Sent: Tuesday, April 26, 2022 9:52 AM
To: [b8]
Subject: RE: Secure E-mail [EXTERNAL MESSAGE] crypto

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Thanks [b8]

We are aware of the FIL. To be honest we are not clear on the applicability of the FIL to this situation. Specifically because, the bank would not be offering any crypto-related products, it would simply be providing traditional commercial banking services to a customer that is a crypto platform.

The FIL says: "...the FDIC is requesting all FDIC-supervised institutions that are considering engaging in crypto-related activities to notify the FDIC of their intent and to provide all necessary information that would allow the FDIC to engage with the institution regarding related risks."

Can you share perspective on this?

Thanks

--- Originally sent by [b8] on Apr 26, 2022 9:39 AM ---

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Hi [b4,b8]

Thank you for reaching out and it is nice to meet you virtually too.

A few weeks ago, on April 7th, the FDIC issued a Financial Institution Letter (FIL) titled “Notification of Engaging in Crypto-Related Activities” that can be found here: <https://www.fdic.gov/news/financial-institution-letters/2022/fil22016.html#letter>. Per your question, the Letter contains some, but not all, crypto-related risk considerations about which the FDIC is concerned. I think that your list does a good job outlining some of the critical potential risks but I would also encourage you to read through the Letter and determine if the considered [b4,b8] relationship would result in any additional risks to the institution.

In addition, the Letter also creates a reporting requirement for FDIC-supervised institutions to notify the FDIC of engagement in crypto-related activities. The notification to the FDIC should describe the activity in detail and provide the institution’s proposed timeline for engaging in the activity. If your email below was intended to serve this purpose then please provide more detail regarding the considered relationship with [b4,b8] such as a listing of anticipated banking services utilized, an estimate of expected activity, and a timeline for engaging in this relationship.

I hope this helps but please feel free to reach out if you have any clarifying questions or concerns.

Thank you,

[b8]

Case Manager, RMS

Federal Deposit Insurance Corporation

25 Jessie Street

b6,b8

From: **b4,b8**
Sent: Monday, April 25, 2022 11:10 AM
To: **b8**
Subject: [EXTERNAL MESSAGE] crypto

Hi **b8**

Nice to virtually meet you as our new case manager.

Looking to discuss or get some feedback from you.

Please see the following website for **b4,b8**

b4,b8 based entity involved in crypto currency (think **b4,b8** Their leadership is quite impressive (perhaps you know **b4,b8** and they have some impressively robust systems and processes that we have seen.

The bank is considering some 100% USD based ACH and wire services or other depository services to support **b4,b8** needs (customer ACH transfers etc). No lending or other functions.

Clear concerns / risks are some of the following (not all-inclusive):

- BSA / AML / KYC (heightened sensitivity beyond other customers)
- Safety / Soundness
-
-
- Operational; ACH rejects, returns, etc (Not necessarily different risks from other customers utilizing these services)

- Liquidity; shifts in deposit balances, stability of funds
- Capital; impact to assets and capital coverage.

Crypto is a sensitive area. There is no expectation now or ever in the future that the bank would hold or otherwise touch actual crypto coins.

From a regulatory standpoint (and with the crypto element); what advice or advice could you offer?

Thanks

b4,b8

CONFIDENTIAL COMMUNICATION: Emails and attachments from **b4,b8** contain strictly privileged and/or confidential information intended only for the use of the individual or entity named above. If you are not the intended recipient you are hereby notified that any dissemination, distribution or copying of this communication is prohibited. If you have received this communication in error, please delete this electronic message and all attachments. Thank you.

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From: [b8]
Sent: Friday, January 27, 2023 8:29 AM
To: FDIC Kansas City Regional Office
Subject: RADD: [b4,b8]

Email only

From: [b8]
Sent: Friday, September 16, 2022 7:23 AM
To: [b4,b8]
Subject: FDIC Questions Regarding Crypto-Activities

Hi [b4,b8]

As we discussed on the phone earlier this week, we have some additional questions surrounding the crypto-activities the bank is engaged in. I know this may take some time to gather the information as you're currently having a Consumer Compliance Exam, but do you think you could send it with the 10/31/2022 [b4,b8] response?

Related to [b4,b8]

As of 5/30/22 there were [b4,b8] in Staging testing and [b4,b8] in Employee testing. Could you please provide us with an update on the status of plans for Employee Testing, Beta Testing, and the Soft Launch? For those phases underway do you have an idea of the number of transacting users and #/\$ of transactions processes so far?

The [b4,b8] Agreement between [b4,b8] agree that [b4,b8] is responsible for notifying customers of all transfers of funds out of a Customer's account held at Banking Partners and into the Customer's [b4,b8] account and all transfers of funds into a Customer's account held at Banking Partners related to cryptocurrency transactions. Are these disclosures provided directly through the [b4,b8] mobile app or elsewhere? Please provide examples of the disclosures provided for transfers both in and out of a Customer's account at [b4,b8] if different than what already provided within the mobile app screenshots.

From the initial information request we were provided with screenshots of the Crypto tab of [b4,b8] mobile application. Are there any other pages a customer would see before/after clicking "Get Started" and before arriving at the main "Crypto" page? If there are other pages, please provide screenshots.

Also, we would like to see screenshots of any other page on the [b4,b8] Mobile application beyond the Crypto tab that reference information on Crypto, disclose that banking services provided are by [b4,b8], or include Member FDIC. This would include anything contained on the [b4,b8] tabs. If it is easier to provide a screen recording of all screens available on the application or show a live demonstration of all the tabs and screens that would be useful.

The second Crypto App screenshot shows a document called "[b4,b8]", I do not believe we have a copy of that disclosure. If developed could we review this document?

From the screenshots of the Crypto Tab we see that there are no crypto trading fees, is bank management aware of any fees that will be charged related to the purchase/sale of crypto assets?

Please provide information the process **b4,b8** and **b4,b8** use to maintain records of customer accounts and balances that are disclosed to be eligible for FDIC deposit insurance. This would include any documentation of the applicability of FDIC deposit insurance to these accounts, policies and procedures relating to the flow of funds to and from the FBO account, and copies of agreements between **b4,b8** and **b4,b8** related to accounts ownership, controls, and recordkeeping.

Related to **b4,b8**

Also, as of **b4,b8** crypto products/servicing had not yet been built, has there been any update to the status of this activity? If not is there a planned timeline for development/testing?

Related to **b4,b8**

Lastly, The information provided in the initial crypto request includes a document titled **b4,b8** **b4,b8** that appears to relate to an existing customer **b4,b8** proposing a change to an **b4,b8** account with funds held at **b4,b8** to include a new **b4,b8** through which account holders to purchase crypto assets through **b4,b8** Information on this activity was not provided in the initial notification to the FDIC on May 10th, do you have any additional information on the status of **b4,b8** implementing this new service and has the bank reviewed any updates customer disclosures related to the activity?

Thanks and have a great weekend!

b8

Case Manager

FDIC, Kansas City Regional Office

☎:

b6,b8



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

Division of Risk Management Supervision
Kansas City Regional Office | (816) 234-8000

September 19, 2022

Board of Directors

b4,b8

Members of the Board:

Enclosed is a copy of the May 16, 2022, FDIC Report of Examination (Report). In addition to our safety and soundness findings, the Report includes the results of an Information Technology examination and an Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT)¹ program review. The FDIC discloses to examined banks the composite and component ratings. The composite rating definitions are included in the Report. Part 309 of our Rules and Regulations requires that you keep the ratings and all Report contents confidential.

b4,b8

¹ The Anti-Money Laundering Act of 2020 (the AML Act) amended subchapter II of chapter 53 of title 31 United States Code (the legislative framework commonly referred to as the “Bank Secrecy Act” or “BSA”). For purposes of consistency with the AML Act, the FDIC will now use the term “AML/CFT program” rather than “BSA/AML compliance program.” Use of “AML/CFT” has the same meaning as the previously used “BSA/AML.”

On May 16, 2022, bank management notified the FDIC that it started due diligence on a third party vendor that would allow customers the ability to buy/sell crypto assets. Please notify this office once management has completed its due diligence and has started beta testing the product, as the FDIC would like to complete a targeted review of the program. The purpose of the review is to assess the bank's risk management practices, policies and procedures, and compliance with consumer protection and AML/CFT regulations, prior to full implementation of the program. We will also provide relevant supervisory feedback to the institution during the review.

The enclosed Report also contains other supervisory recommendations. Promptly addressing those findings will help to improve the related operational areas of your bank.

The last page of the Report is labeled Signatures of Directors/Trustees. Please have each director sign this page after reviewing the Report, and retain the Report for examiner review at subsequent examinations. We have also enclosed an invitation to participate in the FDIC's post-examination survey process. Please refer to the invitation for details and instructions.

As a reminder, written correspondence can be sent to this office as a PDF document through the FDIC's Secure Email portal (securemail.fdic.gov) using the following e-mail address: KCMailroom@FDIC.gov. Information about how to use secure email and FAQs about the service are available at [fdic.gov/secureemail](https://www.fdic.gov/secureemail). You may direct any questions to Case Manager

b8 or me at **b6**

Sincerely,
Daniel W. Holmgren
Assistant Regional Director

Enclosures

cc: **b8**
Federal Reserve Bank of Minneapolis



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

New York Regional Office

MEMORANDUM TO FILE

DATE: September 22, 2022

TO: Files

THROUGH: Catherine H. Goñi
Assistant Regional Director

b8
Case Manager

FROM: **b8**
Trust Examination Specialist

SUBJECT: **b4,b8** - Crypto Related Assets Update

On 9/22/2022, the FDIC received correspondence from Senior Vice President **b4,b8** **b4,b8** that the trust department has a new crypto-related holding in an existing client account.

The letter stated that the client requested the investment team to purchase **b4,b8** shares of **b4,b8** **b4,b8** on 9/22/2022. The net purchase amount was **b4,b8**.

TES **b8** reached out to department management and requested information on the client holding. On 9/29/2022 Operations Manager **b4,b8** provided supporting documentation for the purchase, copies of which are attached to this memo. The client requesting this purchase **b4,b6,b8** has another crypto-related holding in his IRA.

The table below summarizes what crypto-related assets the trust department holds upon client direction in client accounts. Estimated market values are as of 9/30/2022, and all but the **b4,b8** holding have been negatively impacted by the current market environment.

Crypto-Related Asset	Account Name	Number of Shares	Cost Basis (As of Date)	Est. Market Value As of 9/30/2022 *
----------------------	--------------	------------------	-------------------------	-------------------------------------

b4,b8

b4,b8 estimate based upon MVs from public data.

b4,b8

From: **b8**
To:
Cc:
Subject: FW: [EXTERNAL MESSAGE] RE: SECURE EMAIL: Trust Correspondence from 9/22/2022
Date: Wednesday, October 5, 2022 4:14:48 PM
Attachments: **b4,b6,b8**

b8

Attached is a pdf containing all the related information for the **b4,b6,b8** trade on 9/22/2022.

From: **b4,b8**
Sent: Thursday, September 29, 2022 3:52 PM
To: **b4,b8**, **b8**
Cc: **b8**
Subject: [EXTERNAL MESSAGE] RE: SECURE EMAIL: Trust Correspondence from 9/22/2022

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b8

Hello! The trade is for the account of **b4,b6,b8**. This is his Individual Retirement Account. His request to purchase and transaction detail is attached.

b4,b6,b8

Thank you.

b4,b8

— Originally sent by **b8** on Sep 29, 2022 3:36 PM —

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Good afternoon **b4,b8**

This email is to confirm receipt of your correspondence to the FDIC dated 9/22/2022 regarding your client's holding of **b4,b8**. As with our prior discussions, we would like to request documentation regarding the clients direction of the **b4,b6,b8**. The account name and account type would also be helpful.

Please don't hesitate to reach out with any questions. Thanks again for keeping us notified of any crypto-related holdings.

Best Regards,

b8

CAMS

Trust Examination Specialist, Division of Risk Management Supervision
Federal Deposit Insurance Corporation
15 Braintree Hill Office Park, Suite 200
Braintree, MA 02184-8701

b8

REL0000042442

b4,b6,b8

b4,b6,b8

b8

From: **b8**
Sent: Thursday, December 01, 2022 9:38 AM
To: FDIC San Francisco Regional Office
Subject: FW: **b4,b8** - Digital Asset Activity

Please RADD email & attachment to:

1. Business Line: RMS
2. Bank: **b4,b8**
3. City/State: **b4,b8**
4. Folder: Correspondence
5. Source: RO
6. Doc Name: Miscellaneous
7. **Description:** Follow-up on potential **b4,b8** crypto asset relationship

From: **b8**
Sent: Tuesday, October 18, 2022 10:06 PM
To: **b8**
Cc: **b8**
Subject: RE: **b4,b8** - Digital Asset Activity

b8 They certainly made the impression that the bank was going to engage with **b4,b8** limited to accredited investors.

I had a call CEO **b4,b8** today. The bank decided to kill the **b4,b8** idea due to market volatility and other risks, including regulatory risk. **b4,b8** was well aware of the FIL and commented that if they bring it back on the table or any other crypto activity they let us know.

Let me know if you have any questions.

b8

From: **b8**
Sent: Monday, October 17, 2022 7:35 AM
To: **b8**
Cc: **b8**
Subject: **b4,b8** Digital Asset Activity

Good Morning **b8**

I don't think we have met, but my name is **b8**, and I am a financial analyst for the region. We have a few banks in the region that we believe are either live or have some kind of proposed digital asset activity. I have talked with Joe a few times about what looks to be some digital asset activity at **b4,b8**. At this time, Paul W. wants us to start

following up with banks like **b4,b8** , remind them of the outstanding FIL and the request for a written response about the activity.

Is there someone at the field level who can follow up with the bank to make them aware of the FIL and ask for a written response, if applicable? It does not need to be a conversation about the activity, but more so advising them that we are requesting written response for the activity.

b8

Let me know if you have any thoughts/questions.

Thanks! **b8**

b4,b8

b4,b8

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b4,b8

b8

Subject:

FW: Digital Assets -

b4,b8

proposed activity

b4,b8

Consultation with WO in preparing letter to bank regarding proposed third-party crypto-asset activity.

From: Muraywid, Sumaya A. <SMuraywid@FDIC.gov>

Sent: Tuesday, October 25, 2022 4:01 PM

To: Barry, Mary A. <MBarry@FDIC.gov>;

b8

Ritchie, Kara L. <KRitchie@FDIC.gov>;

b8

Maggioni, Paul D. <PMaggioni@FDIC.gov>;

b8

b8

Boyd, Annmarie H. <ABoyd@FDIC.gov>

Cc: Collado, Larisa M. <LCollado@FDIC.gov>; Ahrenholtz, Jason P. <jahrenholtz@FDIC.gov>; Dawley, Suzanne J. <sudawley@FDIC.gov>;

b8

Switzer, Rene O. <RSwitzer@FDIC.gov>;

b8

b8

b8

b8

Subject: RE: Digital Assets -

b4,b8

proposed activity

Hi Mary,

Thank you for updating. This version looks good (if you could change 12/31 to 12/30, so that it's on a Friday).

Thanks
Sumaya

From: Barry, Mary A. <MBarry@FDIC.gov>

Sent: Tuesday, October 25, 2022 8:29 AM

To: Muraywid, Sumaya A. <SMuraywid@FDIC.gov>;

b8

Ritchie, Kara L.

<KRitchie@FDIC.gov>;

b8

Maggioni, Paul D. <PMaggioni@FDIC.gov>;

b8

b8

Boyd, Annmarie H. <ABoyd@FDIC.gov>

Cc: Collado, Larisa M. <LCollado@FDIC.gov>; Ahrenholtz, Jason P. <jahrenholtz@FDIC.gov>; Dawley, Suzanne J. <sudawley@FDIC.gov>;

b8

Switzer, Rene O. <RSwitzer@FDIC.gov>;

b8

b8

b8

b8

Subject: RE: Digital Assets -

b4,b8

proposed activity

Sumaya,

I updated the letter as we discussed last week. This will allow us to receive some of the requested information, if they have it, by year end.

Let me know if this is ready to send out.

Thanks,
Mary

From: Muraywid, Sumaya A. <SMuraywid@FDIC.gov>

Sent: Thursday, October 20, 2022 8:45 AM

To: Barry, Mary A. <MBarry@FDIC.gov>;

b8

Ritchie, Kara L. <KRitchie@FDIC.gov>;

[b8]; Maggioni, Paul D. <PMaggioni@FDIC.gov> [b8]
[b8]; Boyd, Annmarie H. <ABoyd@FDIC.gov>
Cc: Collado, Larisa M. <LCollado@FDIC.gov>; Ahrenholtz, Jason P. <jahrenholtz@FDIC.gov>; Dawley, Suzanne J. <sudawley@FDIC.gov>; [b8]; Switzer, Rene O. <RSwitzer@FDIC.gov>; [b8]
[b8] [b8] [b8]
Subject: RE: Digital Assets - [b4,b8] proposed activity

Hi Mary,

The typical timeframe provided to banks has been 60 days. For consistency, I would suggest replacing the "if the bank..." to a 60 day date. The sentence that follows provides the bank with flexibility to let us know which of the items they don't have yet and when they expect they will be developed (which will give us a sense of when to follow-up for those items). Let me know if you'd like to discuss.

One other item I just noticed, we probably should delete "above" in "above-requested."

Thanks
Sumaya

From: Barry, Mary A. <MBarry@FDIC.gov>
Sent: Wednesday, October 19, 2022 8:17 AM
To: Muraywid, Sumaya A. <SMuraywid@FDIC.gov>; [b8]; Ritchie, Kara L. <KRitchie@FDIC.gov>; [b8]; Maggioni, Paul D. <PMaggioni@FDIC.gov>; [b8]
[b8]; Boyd, Annmarie H. <ABoyd@FDIC.gov>
Cc: Collado, Larisa M. <LCollado@FDIC.gov>; Ahrenholtz, Jason P. <jahrenholtz@FDIC.gov>; Dawley, Suzanne J. <sudawley@FDIC.gov>; [b8]; Switzer, Rene O. <RSwitzer@FDIC.gov>; [b8]
[b8] [b8] [b8]
Subject: RE: Digital Assets - [b4,b8] proposed activity

Hi Sumaya,

The edit to paragraph 2 looks good. For your note in paragraph 3, I'm not sure how we what date we would put there or a timeframe (ie. Within 30, 60 days...) I would rather just keep it the way it is and I'm sure we will be following up with the bank.

If that is ok, we would like to send it out.

Thanks,
Mary

From: Muraywid, Sumaya A. <SMuraywid@FDIC.gov>
Sent: Tuesday, October 18, 2022 7:13 PM
To: Barry, Mary A. <MBarry@FDIC.gov>; [b8]; Ritchie, Kara L. <KRitchie@FDIC.gov>; [b8]; Maggioni, Paul D. <PMaggioni@FDIC.gov>; [b8]
[b8]; Boyd, Annmarie H. <ABoyd@FDIC.gov>
Cc: Collado, Larisa M. <LCollado@FDIC.gov>; Ahrenholtz, Jason P. <jahrenholtz@FDIC.gov>; Dawley, Suzanne J. <sudawley@FDIC.gov>; [b8]; Switzer, Rene O. <RSwitzer@FDIC.gov>; [b8]
[b8] [b8] [b8]
Subject: RE: Digital Assets - [b4,b8] proposed activity

Mary,

We made an edit to avoid requesting the bank submit another notification. Please take a look and let us know what you think.

Thanks
Sumaya

From: Barry, Mary A. <MBarry@FDIC.gov>

Sent: Monday, October 17, 2022 9:28 AM

To: Muraywid, Sumaya A. <SMuraywid@FDIC.gov> [b8]; Ritchie, Kara L. <KRitchie@FDIC.gov> [b8]; Maggioni, Paul D. <PMaggioni@FDIC.gov> [b8]

[b8] Boyd, Annmarie H. <ABoyd@FDIC.gov>

Cc: Collado, Larisa M. <LCollado@FDIC.gov>; Ahrenholtz, Jason P. <jahrenholtz@FDIC.gov>; Dawley, Suzanne J. <sudawley@FDIC.gov> [b8]; Switzer, Rene O. <RSwitzer@FDIC.gov> [b8]

Subject: RE: Digital Assets [b4,b8] proposed activity

Sumaya and [b8]
Please see the letter for [b4,b8] Please let us know if you have any edits/comments or if it is ready to be sent to the bank.

Thanks,
Mary

Mary A. Barry
Assistant Regional Director
Division of Risk Management Supervision
New York Region

[b6]

From: Muraywid, Sumaya A. <SMuraywid@FDIC.gov>

Sent: Wednesday, September 28, 2022 10:20 AM

To: Barry, Mary A. <MBarry@FDIC.gov> [b8]; Ritchie, Kara L. <KRitchie@FDIC.gov> [b8]; Maggioni, Paul D. <PMaggioni@FDIC.gov> [b8]

[b8]; Boyd, Annmarie H. <ABoyd@FDIC.gov>

Cc: Collado, Larisa M. <LCollado@FDIC.gov>; Ahrenholtz, Jason P. <jahrenholtz@FDIC.gov>; Dawley, Suzanne J. <sudawley@FDIC.gov> [b8]; Switzer, Rene O. <RSwitzer@FDIC.gov> [b8]

[b8] [b8] [b8]
Subject: RE: Digital Assets [b4,b8] proposed activity

All – the templates are attached. Thanks for the discussion today. We'll review after you customize per our discussion. Thanks.

-----Original Appointment-----

From: Barry, Mary A. <MBarry@FDIC.gov>

Sent: Tuesday, September 20, 2022 12:08 PM

To: Barry, Mary A. [b8] Muraywid, Sumaya A.; Ritchie, Kara L.; [b8] Maggioni, Paul D.; [b8] Boyd, Annmarie H.

Cc: Collado, Larisa M.; Ahrenholtz, Jason P.; Dawley, Suzanne J. [b8] L.; Switzer, Rene O.; King, Thaddeus J.;

b8

Subject: Digital Assets - **b4,b8** proposed activity

When: Wednesday, September 28, 2022 10:00 AM-10:30 AM (UTC-05:00)

b8

Where: Microsoft Teams Meeting

We would like to set up a call to discuss this proposed activity of **b4,b8** with **b4,b8** Please forward along to any other WO colleagues to participate.

Microsoft Teams meeting

b7(E)

b8

From: Hughes, Frank R.
Sent: Monday, October 31, 2022 3:08 PM
To: Barry, Mary A.
Cc: Ritchie, Kara L.; Strockoz, Scott D.; Hatheway, Marianne;
Subject: RE: Digital Assets - **b4,b8** proposed activity

b8

You can send them through -- thanks!

From: Barry, Mary A. <MBarry@FDIC.gov>
Sent: Monday, October 31, 2022 2:15 PM
To: Hughes, Frank R. <FHughes@FDIC.gov>
Cc: Ritchie, Kara L. <KRitchie@FDIC.gov>; Strockoz, Scott D. <SStrockoz@FDIC.gov>; Hatheway, Marianne <MHatheway@FDIC.gov>; **b8**
Subject: FW: Digital Assets - **b4,b8** proposed activity

Frank,
Please see the attached letter to send to **b4,b8** on their proposed crypto related activity. Kara and I have worked with Legal and our WO counterparts and got this letter reviewed and approved (we used the template request list that Sumaya provided to us). Marianne and Scott have also reviewed it. With your approval, we will send it through ECC for distribution to the bank.

Thank you,
Mary

Mary A. Barry
Assistant Regional Director
Division of Risk Management Supervision
New York Region

b6



November 1, 2022

Board of Directors

b4,b8

Subject: Proposed Third-Party Crypto-Asset Activity

Dear Members of the Board:

By letter dated September 12, 2022, we received **b4,b8** (the Bank) notification that you are considering offering customers the ability to buy, sell, and hold Bitcoin through the Bank's branded online and/or mobile app interface banking platform in conjunction with **b4,b8** 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.

As notified through your letter, the Bank is in the exploratory stages and is not currently engaged in any crypto-related activities. As such, please keep us updated as the bank progresses, including the Bank's proposed timeline for engaging in the activity.

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. Please provide the information in the attached list by December 30, 2022, in order for the FDIC to begin those assessments. 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 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.

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 **b8** at **b6** or Acting Review Examiner **b8** at **b6**. Written correspondence should be addressed to my attention at the New York

November 1, 2022

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

cc:

b8

Institution:

b4,b8

Request List: Crypto-Asset Trading Through Institution with Third Party

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 **b4,b8** 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 for the activity.
9. Project plan for the activity.
10. Vendor management due diligence documentation and analysis related to both the third party **b4,b8** and **b4,b8** 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 **b4,b8** or if the third party cancels or fails to perform under the contract.
12. Description of any fees that will be charged to customers 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 **b4,b8** or the bank on the amount of Bitcoin a customer may purchase or sell (e.g. daily, weekly, monthly).
14. Description of the methodology that determines the price customer pays to **b4,b8** for Bitcoin. This includes providing an explanation of how any market price is determined and how the spread, if any, is calculated.
15. Customer 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 customers by, or through, the bank in connection with activity. Also, a live demonstration of the user interface of the online banking or mobile application customer experience may be requested during the review of this activity.
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).
25. If program is Live/Beta Testing, provide transaction volumes that include: 1) number of active accounts using this service through bank, 2) total number and dollar volume of buy transactions completed (since implementation), and 3) total number and dollar volume of sell transactions completed (since implementation).



FDIC

Federal Deposit Insurance Corporation
300 South Riverside Plaza, Suite 1700
Chicago, IL 60606

Chicago Regional Office
(312) 382-6000

November 17, 2022

Board of Directors

b4,b8

RE: Review of **b4,b8** Potential Bitcoin Service

Members of the Board:

This office has reviewed your letter dated August 10, 2022, and the corresponding documents provided in response to the FDIC Crypto Asset Facilitation Request List. Pursuant to Financial Institution Letter (FIL) 16-2022, this letter provides supervisory feedback relative to the consumer protection and risk management considerations of the proposed crypto-related activity. Please note that the results of this review are subject to the confidentiality restrictions of Part 309 of the FDIC Rules and Regulations.

SCOPE OF THE REVIEW

The review focused on the bank's plans to offer clients the option to buy, hold, and sell Bitcoin through its online banking platform, **b4,b8** and **b4,b8**

b4,b8 Currently, the bank has no board-approved plans but continues to consider implementing the crypto asset service. Therefore, this review was limited in scope and the assessment of the proposed service considered only the information provided to the FDIC as of the date of this letter. The assessment focused on understanding the bank's risk and compliance management frameworks related to this service and steps taken by the bank to evaluate the crypto asset service. This letter provides supervisory feedback for your consideration as you continue to evaluate this service offering.

SUPERVISORY FEEDBACK

Crypto-related activities may pose safety and soundness and consumer protection risks to the institution and its customers. The types and levels of risks are dependent on the activity, implementation of the activity, and controls designed to mitigate the risks. Examples of risks that may be present may include compliance risk, legal risk, operational risk, third party risk, and strategic risk. Facilitating customer crypto asset trading alongside traditional banking products and services may present heightened risk to the bank's customers, such as:

- Confusion about the role of the financial institution in the crypto transactions;
- Lack of understanding about the nature and risks associated with crypto asset products;

REL0000042451

- Inability to differentiate between the nondeposit products and traditional banking products, such as deposit accounts; and
- Misperceptions about federal deposit insurance coverage.

The FDIC's Advisory to FDIC-Insured Institutions Regarding FDIC Deposit Insurance and Dealings with Crypto Companies issued on July 29, 2022, through FIL 35-2022 may serve as a useful resource for the Board and management regarding risks and concerns arising from crypto assets offered by, through, or in connection with insured depository institutions. For example, Part 328, Subpart B of the FDIC's Rules and Regulations, titled "False Advertising, Misrepresentation of Insured Status, and Misuse of the FDIC's Name or Logo," can apply to non-banks, such as crypto companies. Accordingly, the bank should determine if its third-party risk management policies and procedures effectively manage crypto-related risks, including compliance risks related to Part 328, Subpart B.

The information provided to the FDIC on the proposed crypto asset service through b4,b8 highlights that various aspects of the bank's risk and compliance management framework related to this service are in a development or pre-development phase, including:

- due diligence;
- contract, contracting process, and contract review and analysis;
- legal permissibility analysis;
- project and implementation plan;
- policies and procedures that will govern the activity;
- customer facing materials such as the online banking platform, marketing materials, press releases, internal scripts, educational materials, or other publicly distributed information related to the activity; and
- internal training.

The Board and management should ensure appropriate risk and compliance management frameworks are in place prior to implementation of this activity to enable safe and sound operations and compliance with appropriate laws and regulations. In addition to the items noted above that remain in development, this includes performing a comprehensive assessment of the proposed service that includes a detailed and documented assessment of the risks and mitigating controls. The vendor risk assessments conducted on b4,b8 were limited in scope and were largely limited to information security and data access. These risk assessments do not contemplate the nature and new, heightened, or unique risks of this particular service. For example, the risk assessments did not consider the risks and responsibilities associated with the draft contract provisions, or adequately consider anti-money laundering/countering the financing of terrorism risk implications, potential legal risks related to permissibility, or risk of customer confusion that could result from offering a nondeposit product alongside traditional banking, among other things.

Once fully developed, the Board's review and approval of the risk assessment and vendor due diligence should be documented in the Board minutes. While the institution continues to develop a

risk and compliance management framework to identify, assess, and control for the types of risks presented by this crypto asset service, the Board and management should consider the following:

- Disclose information in simple plain language statements that fully inform customers about the nature and risks of the crypto asset service offered through the institution, which customers must read and affirmatively acknowledge separate from other terms and conditions or disclosures embedded within the online banking platform. The placement, format, and timing of any such information in public facing materials, such as the online banking platform, customer disclosures, trade confirmation, and accounts statements, should be clear and conspicuous. The Interagency Statement on Retail Sales of Nondeposit Investment Products may serve as a useful resource for bank management to enhance the risk assessment process and ensure clear and conspicuous language is provided to customers in a manner that:
 - Neither misleads, nor confuses, or is likely to mislead, the institution's customers about the role of the institution in facilitating its customers' transactions with crypto asset provider b4,b8 or the institution's endorsement of such products or services.
 - Minimize the possibility of customer confusion between the protections afforded to the institution's FDIC-insured and non-insured products.
 - Provide clear and complete information on the possible loss of value associated with the b4,b8 service.
 - Clearly and conspicuously disclose any transaction limitations and restrictions associated with the crypto asset service.
- Develop and maintain an effective compliance management system that is commensurate with the financial institution's crypto asset service and allows the institution to effectively identify, measure, monitor, and address consumer protection risks, including those related to unfair or deceptive acts or practices.
- Ensure relevant personnel at the institution have sufficient knowledge and resources to effectively respond to questions, concerns, inquiries, and complaints related to this service. According to the documents provided to the FDIC, customers are expected to contact the bank's customer service team for support regarding the crypto asset service.
- Identify the ongoing monitoring, performance criteria, and reporting needs that will assist the Board and management with the ongoing governance and risk management over this service.

The FDIC requests that the bank notify this office of any material developments related to the proposed crypto activity. The FDIC intends to perform a more in-depth review as management moves further along in the due diligence process. Additionally, please submit the items previously requested on July 19, 2022, once fully developed, including complete risk and compliance management control documentation applicable to this service, prior to implementing the proposed activity. If the bank is considering engaging in additional crypto-related activities, we request notification that describes the activity in detail and provides the institution's proposed timeline for

Board of Directors

b4,b8

Page 4

engaging in the activity. This includes notification if the bank plans to engage in expansion services offered through **b4,b8** such as the **b4,b8** Program or **b4,b8**

As a reminder, written correspondence can be sent to this office as a PDF document through the FDIC's Secure Email portal (securemail.fdic.gov) using the following e-mail address: CHIMailRoom@FDIC.gov. Information about how to use secure email and FAQs about the service can be found at fdic.gov/secureemail. If there are any questions about this correspondence, please contact Case Manager **b8** at **b6**

Sincerely,
Gregory P. Bottone
Regional Director

cc:

b8

Federal Reserve Bank of St. Louis



Federal Deposit Insurance Corporation

1100 Walnut Street, Suite 2100
Kansas City, MO 64106

Division of Risk Management Supervision
Kansas City Regional Office | (816) 234-8000

November 17, 2022

MEMORANDUM TO: Correspondence File

FROM: b8
Case Manager (CM)

SUBJECT: b4,b8
Crypto Update

CM b8 requested this meeting to discuss the status of the proposed crypto facilitation service the bank plans to offer in early 2023. President /CEO b4,b8, EVP/CCO b4,b8, EVP/CFO b4,b8, b4,b8, and COO b4,b8 met with CM b8 via Microsoft Teams on November 17, 2022.

There has been no progress since our September meeting. Management shared that they met this morning and were uneasy about progressing with the proposed service in light of recent FTX bankruptcy news. CEO b4,b8 also noted that the FDIC has not previously inquired about other product rollouts, which gives him pause. I stated that we (FDIC) do not have a position on the topic, but rather want to be a resource for interested institutions. I noted that the FDIC is privy to a number of banks that are going through the due diligence process, which allows us to offer useful perspective. I stated our goals are the same; that we want the bank to operate in a safe, sound, and profitable manner. I added that we can be a resource to help ensure potential risks are identified, effective controls are in place, and consumer disclosures are clear to mitigate and/or reduce risk to the bank.

Management reiterated that this service is not projected to be a “money maker” for the bank; the intent is to help the bank remain competitive with other institutions in its market. COO b4,b8 stated that b4,b8 application programming interface is still stalled. She plans to reach out to b4,b8 in the near-term to see what the bank’s options are as management and the Board are considering aborting the activity all together. Management noted they have approximately b4,b8 months to take action, if they elect to pause the project and revisit it at a later time. COO b4,b8 stated she will update me after speaking with b4,b8 and the Board.

I mentioned that if management elects to move forward with the crypto facilitation service that the FDIC will send a request list prior to implementation, noting that the request list is a good tool to ensure due diligence, risk assessments, policies and procedures, controls, and disclosures are effective.

Based on the lack of progress and management’s plan to, at a minimum, pause the project, KCRO will hold-off on sending a crypto request list.

REL0000042452

From:

b8

To:

FDIC Chicago Regional Office

Cc:

RMS CHI SECRETARIES

Subject:

FW: Please RADD

Date:

Thursday, November 17, 2022 11:55:18 AM

Choose One:

PDF Email Only

Business Line: RMS

Bank Name: **b4,b8**

City, State: **b4,b8**

SOURCE: Bank

Folder: Correspondence

Doc Name: Misc from Bank

Description: Follow-up Information from Call with president **b4,b8** on 11-17-2022

b8

Case Manager

Office: **b6**

Cell Phone: **b6**

-----Original Message-----

From: **b4,b8**

Sent: Thursday, November 17, 2022 11:26 AM

To: **b8**

Subject: RE: [EXTERNAL MESSAGE] RE: Digital asset loans and deposits - Secure email

Hi **b8**

Deposit funds were for **b4,b8** a crypto related hedge fund. Total of \$17MM that came through **b4,b8** from **b4,b8** He said he was more comfortable having the funds at **b4,b8**

Loan info:

b4,b8

b4,b8

Best,

b4,b8

b8

--- Originally sent by **b8** on Nov 17, 2022 9:32 AM --- Thanks.

b8

Case Manager

Office: **b6,b8**

Cell Phone: **b6,b8**

REL0000042453

-----Original Message-----

From: [REDACTED] **b4,b8**

Sent: Thursday, November 17, 2022 9:31 AM

To: [REDACTED] **b8**

Subject: [EXTERNAL MESSAGE] RE: Digital asset loans and deposits - Secure email

Hi [REDACTED] **b8**

All is well. I'll call you in about 30 min.

Best,

[REDACTED] **b4,b8**

--- Originally sent by [REDACTED] **b8** on Nov 17, 2022 9:10 AM ---

This
message was sent securely using

Zix
®

Good Morning [REDACTED] **b4,b8**

When you get a chance, could you give me a call
at [REDACTED] **b6** to discuss any trends you are observing with the
bank's digital asset-related deposits and loans. I also left you
voice message. Thanks.

[REDACTED] **b8**

Case Manager

Office: [REDACTED] **b6,b8**

Cell Phone: [REDACTED] **b6,b8**

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This message was secured by Zix(R).

This message was secured by Zix(R).

b4,b8

b8

From: **b8**
Sent: Monday, November 28, 2022 8:26 AM
To: Slovinski, Steven P.; **b8**
Cc: Goni, Catherine H.; **b8**
Subject: FW: 6/9 Crypto-Related Activities Presentation - Question

Good morning Steve and **b8**
The WO requested some clarification on **b4,b8** Crypto-related holdings last week. I responded quickly and should have included you both – to keep you in the loop!

My apologies. I hope you both had a nice Thanksgiving holiday!

b8

From: **b8**
Sent: Wednesday, November 23, 2022 12:04 PM
To: Muraywid, Sumaya A. <SMuraywid@FDIC.gov>; Goni, Catherine H. <CGoni@FDIC.gov>
Cc: **b8**; **b8**; Collado, Larisa M. <LCollado@FDIC.gov>; Ahrenholtz, Jason P. <jahrenholtz@FDIC.gov>
Subject: Re: 6/9 Crypto-Related Activities Presentation - Question

Good morning Sumatra and Team,

b4,b8 is a bank subsidiary and not FDIC supervised. It is a registered broker-dealer **b4,b8** is a division of the bank and **b4,b8** is named custodian. In the past, assets were held in sub-custody with another party but I think they recently moved the assets to **b4,b8** as well. Most custodians, including **b4,b8** have the ability to record keep domestic and international assets. Also **b4,b8** has a significant international client base.

In general, custody client assets get into their accounts one of two ways- have a broker buy them and have them settle into their account at the bank or they have the bank buy them. This is a service some banks provide and we review for compliance with Regulation R.

I hope this helps a bit! Let me know if you have additional questions.

b8

Get Outlook for iOS

From: Muraywid, Sumaya A. <SMuraywid@FDIC.gov>
Sent: Tuesday, November 22, 2022 5:44:07 PM
To: **b8**; Goni, Catherine H. <CGoni@FDIC.gov>
Cc: **b8**; **b8**; Collado, Larisa M. <LCollado@FDIC.gov>; Ahrenholtz, Jason P. <jahrenholtz@FDIC.gov>
Subject: RE: 6/9 Crypto-Related Activities Presentation - Question

Hi **b8** – can you clarify, the **b4,b8** and **b4,b8** – does the custody activity happen through the bank's trust department? And several of these are not U.S. based or traded on U.S. exchanges as far as I can tell. How does the bank acquire or custody such holdings? Thanks.

From: [b8]

Sent: Tuesday, June 21, 2022 10:59 AM

To: Muraywid, Sumaya A. <SMuraywid@FDIC.gov>; Goni, Catherine H. <CGoni@FDIC.gov>

Cc: Macias, Sandra <SMacias@FDIC.gov>

[b8]

[b8]

[b8]

Collado, Larisa M. <LCollado@FDIC.gov>

[b8]

Subject: RE: 6/9 Crypto-Related Activities Presentation - Question

Good morning Sumaya and team,

I have received some details on the [b4,b8] holdings. All of these holdings were client directed, but we don't know if they were purchased by the bank or received in-kind. The assets are broken out by division:

[b4,b8]

(Trust Department)

- 1 client holding 50 shares [b4,b8] unknown if bank purchased upon client direction or if received in-kind [b4,b8]

[b4,b8] Custody

- Multiple holdings across a number (approx. 124) of domestic/international clients totaling [b4,b8]

[b4,b8]

[b4,b8]

[b4,b8] is a [b4,b8] who custodies client assets at [b4,b8]. Although not regulated by the FDIC, the bank provided details of [b4,b8] holdings which included:

[b4,b8]

From: Muraywid, Sumaya A. <SMuraywid@FDIC.gov>

Sent: Thursday, June 16, 2022 9:45 PM

To: [b8] Goni, Catherine H. <CGoni@FDIC.gov>

Cc: Macias, Sandra <SMacias@FDIC.gov>

[b8]

[b8]

[b8]

Collado, Larisa M. <LCollado@FDIC.gov>

Subject: RE: 6/9 Crypto-Related Activities Presentation - Question

[b8] and Catherine – to follow-up on our discussion earlier this week, 1) or [b4,b8] you can proceed with asking the bank the questions you laid out wrt trust versus investment management account and direction on file, and 2) were you able to follow-up with the exam team on the information they obtained during the [b4,b8] exam?

From: [b8]

Sent: Friday, June 10, 2022 1:42 PM

To: Muraywid, Sumaya A. <SMuraywid@FDIC.gov>

Cc: Goni, Catherine H. <CGoni@FDIC.gov>; Macias, Sandra <SMacias@FDIC.gov>

[b8]

[b8]

[b8]

Subject: RE: 6/9 Crypto-Related Activities Presentation - Question

Hi Sumaya,

I would be happy to meet with you. Next week is a bit crazy but I am wide open Monday afternoon (best from 2pm-5pm) or Wednesday or Thursday mornings. Feel free to propose a time that works best with your schedule(s) as I am sure you have more meetings than me! I am planning to attend the FFIEC Advanced AML sessions next week but happy to skip a session if the afternoons are better for you.

[b8]

From: Muraywid, Sumaya A. <SMuraywid@FDIC.gov>

Sent: Friday, June 10, 2022 1:28 PM

To: [b8]

Cc: Goni, Catherine H. <CGoni@FDIC.gov>; Macias, Sandra <SMacias@FDIC.gov>

[b8]

[b8]

[b8]

Subject: RE: 6/9 Crypto-Related Activities Presentation - Question

Hi [b8]

Can you set up some time to discuss your questions with us?

Thanks

Sumaya

From: Miller, Rae-Ann <RMiller@FDIC.gov>

Sent: Friday, June 10, 2022 10:46 AM

To: [b8]

Cc: Goni, Catherine H. <CGoni@FDIC.gov>

[b8]

Muraywid, Sumaya A.

<SMuraywid@FDIC.gov>

[b8]

Subject: RE: 6/9 Crypto-Related Activities Presentation - Question

Thanks [b8] I am copying Sumaya and [b8] for follow up. [b8] works with us closely on these matters. I have seen the [b4,b8] name in another bank in SFRO.

From: [b8]
Sent: Friday, June 10, 2022 8:01 AM
To: Miller, Rae-Ann <RMiller@FDIC.gov>
Cc: Goni, Catherine H. <CGoni@FDIC.gov>; [b8] [b8]


[b8]

Subject: 6/9 Crypto-Related Activities Presentation - Question

Good morning Rae-Ann,

I was the person who asked the trust department question in yesterday's presentation. First, my question/comment was poorly crafted – it is hard writing a question while listening to a presentation! Regardless, I thought I would ask about trust since we are seeing an increase in crypto-related assets in our departments. I probably should have left the second part of my comment out – it is a much broader issue than crypto. In short, for those I have copied on this email, here is clip of my question:

Anonymous (You) 3:00 PM

 Private

Does the WO want banks to report trust or custody crypto-related assets? We are seeing an increase in such holdings - in ETFs, Trusts (Greyscale, Bitcoin Trust), and other areas (Coinbase, etc.). It may be directed by the client; we are uncertain if any trust departments/investment managers are recommending these for clients in alternative investment allocations of a client account. We are also aware that some banks may try and move operating funds from digital asset deposit accounts to custody/trust systems for sweeps.

The first part: I just wanted to make sure that the Washington Office wants banks to report crypto-related trust assets to the FDIC under FIL-16-2022. These are customer assets and while they largely appear to be client directed from what we have seen, I imagine it is a matter of time before investment professionals are buying these alternative investments in client portfolios. I have asked our trust SMEs to inquire about digital asset activities during pre-exam planning. Currently, the NY Region has at least one trust department that we know of (and has reported) that has ETF/Trust related holdings in [b4,b8] and [b4,b8] Another examiner has identified a number of holdings in custody accounts at another bank and it has been escalated to the EIC to determine next steps. While I don't envision them setting up any networks, I think it is just the start of things. Banks that administer Estates for clients could very easily see these assets come into the bank for estate settlement. They will have to determine whether they will accept this type of business. If they take on this responsibility then questions and concerns will arise over how do you gather these assets, recordkeep the assets, then sell or distribute them to the heirs at the appropriate time. There are also the traditional operational controls, tax reporting, and regulatory reporting (Call Report RC-T) requirements to be dealt with.

I won't get into the second part of my submission now but happy to chat about it at another point.

Have a good weekend!

[b8]

b8

Trust Examination Specialist, Division of Risk Management Supervision

Federal Deposit Insurance Corporation

15 Braintree Hill Office Park, Suite 200

Braintree, MA 02184-8701

b6

b8

FDIC



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

SENT VIA SECURED ELECTRONIC MAIL

November 30, 2022

Board of Directors

b4,b8

Subject: Response to Notification Regarding Crypto Facilitation

Dear Members of the Board:

The FDIC acknowledges the notification provided by Senior Vice President **b4,b8** letter dated October 13, 2022, regarding the bank's intent to offer bitcoin services to its customers through a third-party arrangement with **b4,b8** **b4,b8** The notification was provided pursuant to Financial Institution Letter (FIL), FIL-16-2022, Notification of Engaging in Crypto-Related Activities.

Subsequently, in an email dated November 10, 2022, Executive Assistant **b4,b8** stated that the bank does not intend to offer bitcoin services to customers or perform testing at this time. The FDIC acknowledges the Bank's updated status related to these activities. We request that the Bank notify this office if the status of these activities, or any other proposed crypto-related activity, changes in the future.

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 questions relating to safety and soundness, please contact Case Manager **b8** at **b6,b8** or email at **b8** If you have questions relating to CRA or consumer compliance, please contact Review Examiner **b8** at **b6,b8** or email at **b8**

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/>.

Sincerely,

Kristie K. Elmquist
Regional Director

cc: **b8**

REL0000042456

December 13, 2022

Board of Directors

b4,b8

Re: Consumer Compliance Report

Members of the Board:

The Compliance Report of Examination (Report) prepared as of June 21, 2022 by Examiner-in-Charge **b8** is enclosed. The compliance examination included a comprehensive review of your efforts to administer an effective compliance management system (CMS) and a risk-based review of your compliance with applicable consumer protection and fair lending laws and regulations. Please note that information contained in the Report and this transmittal letter is subject to the confidentiality restrictions pursuant to Part 309 of the FDIC Rules and Regulations.

b4,b8

b4,b8 A written response is requested for the recommendation for ensuring that appropriate controls are in place to minimize the potential for customer confusion regarding the bank's arrangement with **b4,b8** to place kiosks inside of bank branches. With respect to the remaining recommendations, it is our understanding that management is in the process of and/or has already taken corrective action. As such, no additional response is required; however, please maintain supporting documentation for review at your next compliance examination.

You are also encouraged to complete the Post-Examination Survey using the website and access code provided. The survey is part of our continuing effort to improve the quality and efficiency of our examination process.

Please review the Report at an official meeting of the Board and document the review within the meeting minutes. As noted above, a written response to the crypto-related recommendation is required within 45 days of receipt of the Report. The response should provide details, including any supporting documentation, such as disclosure and signage language placed on and around the kiosk locations, as well as, in brochures and any other print materials available to consumers.

Written correspondence can be sent to this office as a PDF document through the FDIC's Secure Email portal (securemail.fdic.gov) using the following e-mail address:

b8

Information about how to use secure email and FAQs about the service can be found at fdic.gov/secureemail. If there are any questions about the Secure Email process or the examination findings, please contact me at

b6

or

b8

Sincerely,

b8

Review Examiner

Enclosures

cc: State, Federal Reserve

b8

Subject:

FW

b4,b8

Response Letter

RE: [EXTERNAL MESSAGE] Crypto-Asset Activity

To RADD:

Information on Approvals by FDIC RD, WO, and **b8** to send letter.

b4,b8

From: Barry, Mary A. <MBarry@FDIC.gov>

Sent: Wednesday, December 14, 2022 1:48 PM

To: **b8**

Subject: FW: **b4,b8** RE: [EXTERNAL MESSAGE] Crypto-Asset Activity Response Letter

b8

The DRDs/RD have reviewed the letter and don't have changes so you can send it to Sumaya and **b8** for Rae-Ann and Chris' review. You may also give the State a heads up on this letter and share a draft.

Thanks,

Mary

From: Hughes, Frank R. <FHughes@FDIC.gov>

Sent: Wednesday, December 14, 2022 11:08 AM

To: Hatheway, Marianne <MHatheway@FDIC.gov>

Cc: Strockoz, Scott D. <SStrockoz@FDIC.gov>; Kaemingk, Jessica A. <JKaemingk@fdic.gov>; Barry, Mary A. <MBarry@FDIC.gov>

Subject: RE: **b4,b8** RE: [EXTERNAL MESSAGE] Crypto-Asset Activity Response Letter

I don't have any changes – thanks.

From: Hatheway, Marianne <MHatheway@FDIC.gov>

Sent: Wednesday, December 14, 2022 9:26 AM

To: Hughes, Frank R. <FHughes@FDIC.gov>

Cc: Strockoz, Scott D. <SStrockoz@FDIC.gov>; Kaemingk, Jessica A. <JKaemingk@fdic.gov>; Barry, Mary A. <MBarry@FDIC.gov>

Subject: Fwd: **b4,b8** RE: [EXTERNAL MESSAGE] Crypto-Asset Activity Response Letter

Frank -

Attached is the letter that we would like to send to **b4,b8** regarding their decision not to pursue crypto activities at this time. Mary, Scott, and I have completed our review. After this review, the letter will be sent to WO for final review before sharing it with the state.

Marianne

Get [Outlook for iOS](#)

From: Barry, Mary A. <MBarry@FDIC.gov>
Sent: Tuesday, December 13, 2022 11:18 AM
To: Hatheway, Marianne <MHatheway@FDIC.gov>; Strockoz, Scott D. <SStrockoz@FDIC.gov>
Cc: Ritchie, Kara L. <KRitchie@FDIC.gov>; [REDACTED] b8; [REDACTED] b8
[REDACTED] b8; Maggioni, Paul D. <PMaggioni@FDIC.gov>
Subject: FW: [REDACTED] b4,b8 RE: [EXTERNAL MESSAGE] Crypto-Asset Activity Response Letter

Marianne and Scott,
Please see the attached letter to send to [REDACTED] b4,b8 regarding their change in status with their crypto-related activity. As you can see from the email chain below, WO asked for the DRD/RD before sending it back down to WO for Rae-Ann and Chris' review. Please let me know if you have any comments. If not, you can share with Frank.

Thanks,
Mary

From: [REDACTED] b8
Sent: Wednesday, December 07, 2022 7:41 PM
To: Barry, Mary A. <MBarry@FDIC.gov>
Cc: Ritchie, Kara L. <KRitchie@FDIC.gov>; Maggioni, Paul D. <PMaggioni@FDIC.gov>
Subject: FW: [REDACTED] b4,b8 RE: [EXTERNAL MESSAGE] Crypto-Asset Activity Response Letter

Hi Mary --
Attached is a copy in which I accepted the changes which came out of WO. Please request DRD/RD review. Then, they want it back one last time for Rae Ann and Chris to take a look.

After all that I need to remember to loop in [REDACTED] b8

Thanks

[REDACTED] b8

[REDACTED] b8

Case Manager, Division of Risk Management Supervision
Federal Deposit Insurance Corporation
15 Braintree Hill Office Park
Braintree, MA, 02184

[REDACTED] b6

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From: Muraywid, Sumaya A. <SMuraywid@FDIC.gov>

Sent: Wednesday, December 07, 2022 4:34 PM

To: [REDACTED] b8 [REDACTED] b8

Cc: Ahrenholtz, Jason P. <jahrenholtz@FDIC.gov>; Collado, Larisa M. <LCollado@FDIC.gov>; Ritchie, Kara L. <KRitchie@FDIC.gov>; Barry, Mary A. <MBarry@FDIC.gov>; Maggioni, Paul D. <PMaggioni@FDIC.gov> [REDACTED] b8

Subject: RE: [REDACTED] b8 RE: [EXTERNAL MESSAGE] Crypto-Asset Activity Response Letter

[REDACTED] b8

Thank you for sending this for our review. RMS/DCP/Legal staff level edits are attached. After the DRDs/RD review, please send it back for Rae-Ann and Chris's review.

Thanks
Sumaya

From: [REDACTED] b8

Sent: Friday, December 2, 2022 4:47 PM

To: [REDACTED] b8 Muraywid, Sumaya A. <SMuraywid@FDIC.gov>

Cc: Ahrenholtz, Jason P. <jahrenholtz@FDIC.gov>; Collado, Larisa M. <LCollado@FDIC.gov>; Ritchie, Kara L. <KRitchie@FDIC.gov>; Barry, Mary A. <MBarry@FDIC.gov>; Maggioni, Paul D. <PMaggioni@FDIC.gov> [REDACTED] b8

Subject: [REDACTED] b8 RE: [EXTERNAL MESSAGE] Crypto-Asset Activity Response Letter

Hello [REDACTED] b8 and Sumaya,

The team here (NYRO's RMS, DCP and Legal representatives) have prepared/reviewed the attached draft letter using your template. ARD Mary Barry asked me to send it along to you for a quick WO review.

Once we have your feedback, we will reach out to the [REDACTED] b8 and then send it up to our DRD and RD to get the letter issued. The two word docs are identical, but one has the margins expanded to fit the letter onto one page.

Thanks and have a nice weekend.

[REDACTED] b8

[REDACTED] b8

Case Manager, Division of Risk Management Supervision

Federal Deposit Insurance Corporation

15 Braintree Hill Office Park

Braintree, MA 02184

[REDACTED] b6

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FDIC

From

b8

Sent: Wednesday, November 23, 2022 11:35 AM

To: Ritchie, Kara L. <KRitchie@FDIC.gov>; Barry, Mary A. <MBarry@FDIC.gov>; Maggioni, Paul D. <PMaggioni@FDIC.gov>;

b8

b8

Cc: Muraywid, Sumaya A. <SMuraywid@FDIC.gov>; Ahrenholtz, Jason P. <jahrenholtz@FDIC.gov>; Collado, Larisa M. <LCollado@FDIC.gov>

Subject: RE: [EXTERNAL MESSAGE] Crypto-Asset Activity Response Letter

Thanks for the update! Could you all please draft a letter to the bank to acknowledge the change in status? I've attached a sample you can reference. If you could please send us for a quick WO review we would appreciate it and this will close the loop with this bank for now.

b8

Consumer Compliance Technology Specialist
FDIC | Division of Depositor and Consumer Protection

b6

From: Ritchie, Kara L. <KRitchie@FDIC.gov>

Sent: Friday, November 18, 2022 4:00 AM

To: Barry, Mary A. <MBarry@FDIC.gov>; Maggioni, Paul D. <PMaggioni@FDIC.gov>;

b8

b8

Muraywid, Sumaya A. <SMuraywid@FDIC.gov>;

b8

Subject: RE: [EXTERNAL MESSAGE] Crypto-Asset Activity Response Letter

Thanks Mary!

Kara L. Ritchie

Assistant Regional Director – Compliance and CRA

FDIC New York Region

15 Braintree Office Hill Park

Braintree, Massachusetts 02184

kritchie@fdic.gov

b6

From: Barry, Mary A. <MBarry@FDIC.gov>

Sent: Thursday, November 17, 2022 2:16 PM

To: Ritchie, Kara L. <KRitchie@FDIC.gov>; Maggioni, Paul D. <PMaggioni@FDIC.gov>;

b8

b8

Muraywid, Sumaya A. <SMuraywid@FDIC.gov>;

b8

Subject: FW: [EXTERNAL MESSAGE] Crypto-Asset Activity Response Letter

Fyi - b4,b8 has suspended the exploratory phase as acting as a finder of providing Bitcoin services to its customers through third parties.

b8

From: Muraywid, Sumaya A.
Sent: Friday, December 23, 2022 9:11 AM
To: **b8**
Cc: **b8**; Barry, Mary A.; Collado, Larisa M.; Macias, Sandra; Marks, Alicia R.; Ritchie, Kara L.; **b8**
Subject: RE: **b4,b8** RE: [EXTERNAL MESSAGE] Crypto-Asset Activity Response Letter

b8 both Rae-Ann and Chris have reviewed and have no edits. Thank you and sorry for the delay.

From: Muraywid, Sumaya A.
Sent: Tuesday, December 20, 2022 3:34 PM
To: **b8**
Cc: **b8**; Barry, Mary A. <MBarry@FDIC.gov>; Collado, Larisa M. <LCollado@FDIC.gov>; Macias, Sandra <SMacias@FDIC.gov>
Subject: RE: **b4,b8** [EXTERNAL MESSAGE] Crypto-Asset Activity Response Letter

H **b8** we have one sign off, waiting for one more. Will keep you posted and thanks for checking in.

From: **b8**
Sent: Tuesday, December 20, 2022 2:44 PM
To: Muraywid, Sumaya A. <SMuraywid@FDIC.gov>
Cc: **b8**; Barry, Mary A. <MBarry@FDIC.gov>
Subject: RE: **b4,b8** RE: [EXTERNAL MESSAGE] Crypto-Asset Activity Response Letter

Hello Sumaya,
Hope this email finds you well. Do you have an update on the status of the Rae Ann and Chris review of this letter?

Thanks,

b8

From: **b8**
Sent: Wednesday, December 14, 2022 2:00 PM
To: Muraywid, Sumaya A. <SMuraywid@FDIC.gov>
Cc: **b8**; Barry, Mary A. <MBarry@FDIC.gov>
Subject: RE: **b4,b8** RE: [EXTERNAL MESSAGE] Crypto-Asset Activity Response Letter

Hello Sumaya,
The New York DRDs/RD have reviewed the letter and don't have changes. It is ready for Rae-Ann and Chris' review.

b8

Case Manager, Division of Risk Management Supervision
Federal Deposit Insurance Corporation
15 Braintree Hill Office Park
Braintree, MA 02184

b6

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From: Muraywid, Sumaya A. <SMuraywid@FDIC.gov>

Sent: Wednesday, December 07, 2022 7:37 PM

To: [REDACTED] b8

Cc: [REDACTED] b8

Subject: RE: [REDACTED] b4,b8 RE: [EXTERNAL MESSAGE] Crypto-Asset Activity Response Letter

Thanks!

From: [REDACTED] b8

Sent: Wednesday, December 7, 2022 7:37 PM

To: Muraywid, Sumaya A. <SMuraywid@FDIC.gov> [REDACTED] b8

Cc: Ahrenholtz, Jason P. <jahrenholtz@FDIC.gov>; Collado, Larisa M. <LCollado@FDIC.gov>; Ritchie, Kara L. <KRitchie@FDIC.gov>; Barry, Mary A. <MBarry@FDIC.gov>; Maggioni, Paul D. <PMaggioni@FDIC.gov> [REDACTED] b8

[REDACTED] b8

Subject: RE: [REDACTED] b4,b8 RE: [EXTERNAL MESSAGE] Crypto-Asset Activity Response Letter

Thank you Sumaya.

The changes look good to me and I'll pass the document to be reviewed by DRD/RD. Then we'll send back to WO for Rae Ann and Chris review.

[REDACTED] b8

Case Manager, Division of Risk Management Supervision

Federal Deposit Insurance Corporation

15 Braintree Hill Office Park

Braintree, MA 02184

[REDACTED] b6

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From: Muraywid, Sumaya A. <SMuraywid@FDIC.gov>

Sent: Wednesday, December 07, 2022 4:34 PM

To: [REDACTED] b8 [REDACTED] b8

Cc: Ahrenholtz, Jason P. <jahrenholtz@FDIC.gov>; Collado, Larisa M. <LCollado@FDIC.gov>; Ritchie, Kara L. <KRitchie@FDIC.gov>; Barry, Mary A. <MBarry@FDIC.gov>; Maggioni, Paul D. <PMaggioni@FDIC.gov> [REDACTED] b8

[REDACTED] b8

Subject: RE: [REDACTED] b4,b8 RE: [EXTERNAL MESSAGE] Crypto-Asset Activity Response Letter

[REDACTED] b8

Thank you for sending this for our review. RMS/DCP/Legal staff level edits are attached. After the DRDs/RD review, please send it back for Rae-Ann and Chris's review.

Thanks
Sumaya

From: [b8]
Sent: Friday, December 2, 2022 4:47 PM
To: [b8] Muraywid, Sumaya A. <SMuraywid@FDIC.gov>
Cc: Ahrenholtz, Jason P. <jahrenholtz@FDIC.gov>; Collado, Larisa M. <LCollado@FDIC.gov>; Ritchie, Kara L. <KRitchie@FDIC.gov>; Barry, Mary A. <MBarry@FDIC.gov>; Maggioni, Paul D. <PMaggioni@FDIC.gov>; [b8]
Subject: [b8] RE: [EXTERNAL MESSAGE] Crypto-Asset Activity Response Letter

Hello [b8] and Sumaya,

The team here (NYRO's RMS, DCP and Legal representatives) have prepared/reviewed the attached draft letter using your template. ARD Mary Barry asked me to send it along to you for a quick WO review.

Once we have your feedback, we will reach out to the [b8] and then send it up to our DRD and RD to get the letter issued. The two word docs are identical, but one has the margins expanded to fit the letter onto one page.

Thanks and have a nice weekend.

[b8]

[b8]

Case Manager, Division of Risk Management Supervision
Federal Deposit Insurance Corporation
15 Braintree Hill Office Park
Braintree, MA, 02184

[b6]

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From: [b8]
Sent: Wednesday, November 23, 2022 11:35 AM
To: Ritchie, Kara L. <KRitchie@FDIC.gov>; Barry, Mary A. <MBarry@FDIC.gov>; Maggioni, Paul D. <PMaggioni@FDIC.gov>; [b8] [b8]
Cc: Muraywid, Sumaya A. <SMuraywid@FDIC.gov>; Ahrenholtz, Jason P. <jahrenholtz@FDIC.gov>; Collado, Larisa M. <LCollado@FDIC.gov>
Subject: RE: [EXTERNAL MESSAGE] Crypto-Asset Activity Response Letter

Thanks for the update! Could you all please draft a letter to the bank to acknowledge the change in status? I've attached a sample you can reference. If you could please send us for a quick WO review we would appreciate it and this will close the loop with this bank for now.

[b8]

Consumer Compliance Technology Specialist
FDIC | Division of Depositor and Consumer Protection

[b6]

From: Ritchie, Kara L. <KRitchie@FDIC.gov>

Sent: Friday, November 18, 2022 4:00 AM

To: Barry, Mary A. <MBarry@FDIC.gov>; Maggioni, Paul D. <PMaggioni@FDIC.gov>

b8

b8

Murraywid, Sumaya A. <SMurraywid@FDIC.gov>

b8

Subject: RE: [EXTERNAL MESSAGE] Crypto-Asset Activity Response Letter

Thanks Mary!

Kara L. Ritchie

Assistant Regional Director – Compliance and CRA

FDIC New York Region

15 Braintree Office Hill Park

Braintree, Massachusetts 02184

kritchie@fdic.gov

b6

From: Barry, Mary A. <MBarry@FDIC.gov>

Sent: Thursday, November 17, 2022 2:16 PM

To: Ritchie, Kara L. <KRitchie@FDIC.gov>; Maggioni, Paul D. <PMaggioni@FDIC.gov>

b8

b8

Murraywid, Sumaya A. <SMurraywid@FDIC.gov>

b8

Subject: FW: [EXTERNAL MESSAGE] Crypto-Asset Activity Response Letter

Fyi [b4,b8] has suspended the exploratory phase as acting as a finder of providing Bitcoin services to its customers through third parties.

b8

From:

b8

Sent:

Thursday, December 15, 2022 9:18 AM

To:

b8

Cc:

Barry, Mary A.

Subject:

[EXTERNAL MESSAGE] Re: **b4,b8** secure mail)

Hey **b8**

Thank for providing a draft of the letter. It looks good.

b8

From:

b8

Sent: Wednesday, December 14, 2022 2:04 PM

To:

b8

Cc: Barry, Mary A. <MBarry@FDIC.gov>

Subject: **b4,b8** secure mail)

CAUTION: This email originated from a sender outside of the **b8** mail system. Do not click on links or open attachments unless you recognize the sender and know the content is safe.

Hello **b8**

I wanted to give you a heads up on the attached draft letter, which we plan to issue shortly.

Previous correspondence issued by the bank and by the FDIC on this matter are available in RADD.

Let me know if you have any questions.

Thanks,

b8

b8

Case Manager, Division of Risk Management Supervision

Federal Deposit Insurance Corporation

15 Braintree Hill Office Park

Braintree, MA, 02184

b6

b6

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Federal Deposit Insurance Corporation
Division of Risk Management Supervision
Division of Depositor and Consumer Protection
1100, Walnut Street, Kansas City, Missouri 64106

Kansas City Regional Office

Phone (816) 234-8000

December 23, 2022

Board of Directors

b4,b8

Subject: Third-Party Crypto-Asset Activity

Dear Members of the Board:

The FDIC acknowledges the notification provided by **b4,b8** (the Bank) dated August 22, 2022, regarding the Bank's intent to offer customers the ability to buy, sell, and hold various crypto-assets through the Bank's **b4,b8** **b4,b8** in conjunction with a third party crypto-asset partner. The notification was provided pursuant 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.

In a letter dated December 21, 2022, President **b4,b8** indicated that the bank will forgo further consideration of engaging in a vendor relationship with **b4,b8** and suspend the Bank's pursuit of crypto-asset offerings. The FDIC acknowledges the Bank's updated status related to this activity. We request that the Bank notify this office if the status of this activity, or other crypto-related activity, changes in the future.

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 **b8** at **b6** or Review Examiner **b8** at **b6**. 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 (securemail.fdic.gov) using the following e-mail address: KCMailroom@FDIC.gov.

Sincerely,
James D. LaPierre
Regional Director

cc: **b8**

REL0000042460

b4,b8

From: Barry, Mary A. <MBarry@FDIC.gov>

Sent: Wednesday, December 28, 2022 3:21 PM

To: **b8**

Subject: FW: For Your Review **b4,b8** - Crypto-related Activities Letter

Please put through ECC when you return for Frank to approve for distribution.

Thanks,

Mary

From: Muraywid, Sumaya A. <SMuraywid@FDIC.gov>

Sent: Wednesday, December 28, 2022 3:02 PM

To: Barry, Mary A. <MBarry@FDIC.gov>

Cc: **b8** Collado, Larisa M. <LCollado@FDIC.gov>; Macias, Sandra <SMacias@FDIC.gov>; Ritchie, Kara L. <KRitchie@FDIC.gov>; **b8**

b8
Subject: RE: For Your Review **b4,b8** - Crypto-related Activities Letter

Hi Mary — you can move ahead with sending the letter. Thanks.

From: Barry, Mary A. <MBarry@FDIC.gov>

Sent: Tuesday, December 27, 2022 12:01 PM

To: Muraywid, Sumaya A. <SMuraywid@FDIC.gov>

Cc: **b8** Collado, Larisa M. <LCollado@FDIC.gov>; Macias, Sandra <SMacias@FDIC.gov>; Ritchie, Kara L. <KRitchie@FDIC.gov>; **b8**

b8
Subject: FW: For Your Review **b4,b8** - Crypto-related Activities Letter

Sumaya,

We edited the letter to change cryptocurrency to crypto assets. Senior management in the Region has also reviewed the letter. Please let us know when Rae Ann and Chris have reviewed and we will update the date and send it out.

Thanks,

Mary

REL0000042462

From: Muraywid, Sumaya A. <SMuraywid@FDIC.gov>

Sent: Thursday, December 15, 2022 6:50 PM

To: [REDACTED] b8

Cc: Macias, Sandra <SMacias@FDIC.gov>; Collado, Larisa M. <LCollado@FDIC.gov>; Barry, Mary A. <MBarry@FDIC.gov>

Subject: RE: [REDACTED] b4,b8 Crypto-related Activities

b8

Thanks for sending this. only one edit, please change "cryptocurrency" to "crypto assets"

Thanks

From: [REDACTED] b8

Sent: Thursday, December 1, 2022 10:37 AM

To: Muraywid, Sumaya A. <SMuraywid@FDIC.gov> [REDACTED] b8

Cc: Ahrenholtz, Jason P. <jahrenholtz@FDIC.gov>; Schuett, Timothy J. <TSchuett@FDIC.gov>; Collado, Larisa M. <LCollado@FDIC.gov>; Barry, Mary A. <MBarry@FDIC.gov>

Subject: [REDACTED] b4,b8 - Crypto-related Activities

Good Morning,

For your review, attached is a letter, drafted by the Region using the template, to [REDACTED] b4,b8
[REDACTED] b4,b8 regarding the out-of-scope crypto-related activities. [REDACTED] b8

From: Muraywid, Sumaya A. <SMuraywid@FDIC.gov>

Sent: Tuesday, November 22, 2022 5:57 PM

To: [REDACTED] b8 Barry, Mary A. <MBarry@FDIC.gov>

Cc: Ahrenholtz, Jason P. <jahrenholtz@FDIC.gov>; Schuett, Timothy J. <TSchuett@FDIC.gov> [REDACTED] b8
[REDACTED] b8 Collado, Larisa M. <LCollado@FDIC.gov>

Subject: RE: Crypto [REDACTED] b4,b8

[REDACTED] b8

Thanks for the update. These seem to be limited to common stock of publicly traded companies on U.S. stock exchanges. We do not think they are in scope of the FIL. Please let us know if you concur and we will move ahead with getting formal concurrence from Rae-Ann and Chris. If they concur, we'll let you know and then, you can send the out of scope letter from the RD memo.

Thanks

Sumaya

From:

b8

Sent: Tuesday, October 11, 2022 12:48 PM

To: Muraywid, Sumaya A. <SMuraywid@FDIC.gov>; Barry, Mary A. <MBarry@FDIC.gov>

Cc: Ahrenholtz, Jason P. <jahrenholtz@FDIC.gov>; Schuett, Timothy J. <TSchuett@FDIC.gov>

b8

b8

Subject: RE: Crypto

b4,b8

Good Afternoon Sumaya,

The examiners identified two crypto-related assets held in client accounts: b4,b8 stock
and b4,b8 The investments are directed by the bank's clients b8

From: Muraywid, Sumaya A. <SMuraywid@FDIC.gov>

Sent: Friday, October 7, 2022 11:29 AM

To: b8 Barry, Mary A. <MBarry@FDIC.gov>

Cc: Ahrenholtz, Jason P. <jahrenholtz@FDIC.gov>; Schuett, Timothy J. <TSchuett@FDIC.gov>

b8

b8

Subject: Crypto

b4,b8

Good morning and happy Friday. Thank you for the entry on

b4,b8

b4,b8 I have a quick initial question. The entry says the bank holds "crypto related assets in clients' account" – can you clarify what those assets are? For example, is it bitcoin or another crypto asset, or is it a crypto asset fund or crypto asset company stock? Thank you!

From:

b8

Sent: Wednesday, December 21, 2022 11:03 AM

To:

b8

Cc: Barry, Mary A. <MBarry@FDIC.gov>; Voulgarelis, Christina <CVOULGARELIS@FDIC.gov>; Ritchie, Kara L. <KRitchie@FDIC.gov>

Subject: RE: For Your Review

b4,b8

Crypto-related

Activities Letter

Good morning -- the letter looks good to me also.

Thanks,

b8

From: Voulgarelis, Christina <CVOULGARELIS@FDIC.gov>

Sent: Tuesday, December 20, 2022 4:52 PM

To:

b8

Cc: Barry, Mary A. <MBarry@FDIC.gov>

Subject: RE: For Your Review

b4,b8

Crypto-related

Activities Letter

b8 it looks fine to me, thank you.

From:

b8

Sent: Tuesday, December 20, 2022 3:45 PM

To:

b8

Voulgarelis, Christina <CVOULGARELIS@FDIC.gov>

Cc: Barry, Mary A. <MBarry@FDIC.gov>

Subject: FW: For Your Review

b4,b8

Crypto-

related Activities Letter

Good Afternoon b8 and Christina,

When available, please provide your approval or any comments to Mary Barry regarding the attached

b4,b8

crypto-related activities letter. I am on Leave until 1/3/23, and Mary will coordinate distribution of the letter to the bank. Thanks, Happy Holidays, b8

From:

b8

Sent: Monday, December 19, 2022 9:17 AM

To:

b8

Voulgarelis, Christina <CVOULGARELIS@FDIC.gov>

Cc: Barry, Mary A. <MBarry@FDIC.gov>

Subject: For Your Review - [b4,b8] Crypto-related Activities Letter

Good Morning [b8] and Christina,

WO provided the below email and edit to the crypto-related activities letter to [b4,b8]

[b4,b8] Please review the attached version and provide any comments. When final, it will be submitted to the RD for signature and distribution to the bank. [b8] – my understanding is [b6] Thanks, [b8]

From: Muraywid, Sumaya A. <SMuraywid@FDIC.gov>

Sent: Thursday, December 15, 2022 6:50 PM

To: [b8] [b8]

Cc: Macias, Sandra <SMacias@FDIC.gov>; Collado, Larisa M. <LCollado@FDIC.gov>; Barry, Mary A. <MBarry@FDIC.gov>

Subject: RE: [b4,b8] - Crypto-related Activities

[b8]

Thanks for sending this. only one edit, please change “cryptocurrency” to “crypto assets”

Thanks

From: [b8]

Sent: Thursday, December 1, 2022 10:37 AM

To: Muraywid, Sumaya A. <SMuraywid@FDIC.gov> [b8]

Cc: Ahrenholtz, Jason P. <jahrenholtz@FDIC.gov>; Schuett, Timothy J. <TSchuett@FDIC.gov>; Collado, Larisa M. <LCollado@FDIC.gov>; Barry, Mary A. <MBarry@FDIC.gov>

Subject: [b4,b8] Crypto-related Activities

Good Morning,

For your review, attached is a letter, drafted by the Region using the template, to [b4,b8] [b4,b8] regarding the out-of-scope crypto-related activities. [b8]

From: Muraywid, Sumaya A. <SMuraywid@FDIC.gov>

Sent: Tuesday, November 22, 2022 5:57 PM

To: [b8] Barry, Mary A. <MBarry@FDIC.gov>

Cc: Ahrenholtz, Jason P. <jahrenholtz@FDIC.gov>; Schuett, Timothy J. <TSchuett@FDIC.gov> [b8] [b8] Collado, Larisa M. <LCollado@FDIC.gov>

Subject: RE: Crypto [b4,b8]

[b8]

Thanks for the update. These seem to be limited to common stock of publicly traded companies on U.S. stock exchanges. We do not think they are in scope of the FIL. Please let us know if you concur and we

will move ahead with getting formal concurrence from Rae-Ann and Chris. If they concur, we'll let you know and then, you can send the out of scope letter from the RD memo.

Thanks

Sumaya

From: [b8]
Sent: Tuesday, October 11, 2022 12:48 PM
To: Muraywid, Sumaya A. <SMuraywid@FDIC.gov>; Barry, Mary A. <MBarry@FDIC.gov>
Cc: Ahrenholtz, Jason P. <jahrenholtz@FDIC.gov>; Schuett, Timothy J. <TSchuett@FDIC.gov> [b8]
[b8]
Subject: RE: Crypto [b4,b8]

Good Afternoon Sumaya,

The examiners identified two crypto-related assets held in client accounts: [b4,b8] stock
and [b4,b8] The investments are directed by the bank's clients [b8]

From: Muraywid, Sumaya A. <SMuraywid@FDIC.gov>
Sent: Friday, October 7, 2022 11:29 AM
To: [b8] Barry, Mary A. <MBarry@FDIC.gov>
Cc: Ahrenholtz, Jason P. <jahrenholtz@FDIC.gov>; Schuett, Timothy J. <TSchuett@FDIC.gov> [b8]
[b8]
Subject: Crypto [b4,b8]

Good morning and happy Friday. Thank you for the entry on [b4,b8]
[b4,b8] I have a quick initial question. The entry says the bank holds "crypto related assets in clients' account" – can you clarify what those assets are? For example, is it bitcoin or another crypto asset, or is it a crypto asset fund or crypto asset company stock? Thank you!

b8

From: **b8**
Sent: Monday, April 24, 2023 5:56 PM
To: FDIC San Francisco Regional Office
Subject: RADD Room

a. Include email: Yes
b. Institution Name: **b4,b8**
c. City:
d. State:
e. Division: RMS
f. Folder: Correspondence
g. Source: RO
h. Doc Name: Miscellaneous
i. Description: Update on crypto firm **b4,b8**

From: Muraywid, Sumaya A. <SMuraywid@FDIC.gov>
Sent: Tuesday, March 21, 2023 4:46 PM
To: **b8**
Cc: **b8**; Macias, Sandra <SMacias@FDIC.gov>;
Ties, Nicholas F. <nties@FDIC.gov>; **b8**
Subject: RE: **b4,b8** Update

Thank you **b8** That's very helpful. It looks like there is a DCP exam in May, which will be a good opportunity for follow-up.

Thank you for all of your collaboration and follow-up on the crypto-asset related activity. Much appreciated.

From: **b8**
Sent: Tuesday, March 21, 2023 11:44 AM
To: Muraywid, Sumaya A. <SMuraywid@FDIC.gov> **b8**
Cc: **b8**; Macias, Sandra <SMacias@FDIC.gov>;
Ties, Nicholas F. <nties@FDIC.gov>; **b8**
Subject: RE: **b4,b8** Update

Good Morning Sumaya **b8** Please see my answers in red below.

Best,

b8

Senior Risk Management Examiner
Federal Deposit Insurance Corporation

b8

b6

fdic.gov



From: Muraywid, Sumaya A. <SMuraywid@FDIC.gov>

Sent: Monday, March 20, 2023 4:16 PM

To: [REDACTED]

Cc: [REDACTED] Macias, Sandra <SMacias@FDIC.gov>;

Ties, Nicholas F. <nties@FDIC.gov> [REDACTED]

Subject: RE: [REDACTED]

Update

Hi [REDACTED]

1. Thank you for sending this. To clarify, the retail working group was not involved, sorry for the confusion. To reflect collaboration with the WO, it would be RMS PPD and RMAS, as well as DCP. Thank you for the clarification, I will reflect the change in the A-Page Comment.
2. In terms of [REDACTED] I'm uncertain what 'cryptocurrency activity' would mean for the proposed A-page comment. Do you mean that the examination identified that [REDACTED] is engaged in crypto-asset activity, however, the funds held at the bank as of the exam represent capital raises, and that bank management provided information on the last day of the exam that indicated [REDACTED] customers will send funds to [REDACTED] account at the bank, so that [REDACTED] can purchase bitcoin on behalf of their users? If that is the case, did the bank provide copies of the end user agreement/disclosure? I think crypto currency activity may be expected in the future. Currently most of [REDACTED] money at [REDACTED] (see table below) is in CDs from capital raises. Our understanding was/is that [REDACTED] (cryptocurrency) has not actually started yet. Yesterday, I followed up with the BSA Officer and this is his email response: "Based on our most recent conversations with [REDACTED] [REDACTED]"

3.

Thanks
Sumaya [REDACTED]

From: [REDACTED]

Sent: Friday, March 17, 2023 8:10 PM

To: [REDACTED]

[REDACTED]

[REDACTED]

b8

b8

Murraywid, Sumaya A. <SMurraywid@FDIC.gov>

b8

b8

Subject: RE: b4,b8 Update

Hello, The open section of the exam will note that b4,b8 accounts closed on or before b4,b8 I have the following A-page comment to provide continuity to future visits/exams:

Crypto Customers

Given that b4,b8 serves as a custodian of crypto customers, the FDIC's Retail Emerging Technology Working Group requested that certain documents be uploaded to a b7(E) b4,b8 Chief, Emerging Technology Section Sumaya Murraywid is the Point of Contact.

The latest information for b4,b8 was uploaded to the aforementioned b7(E) The deposit accounts reflects capital raised, but at this time, there does not appear to be cryptocurrency activity - yet. However, this relationship should be reviewed at the next visitation or examination.

Best,

b8

Senior Risk Management Examiner
Federal Deposit Insurance Corporation

b8

b6

fdic.gov

FDIC

From b8

Sent: Tuesday, March 07, 2023 5:51 PM

To: b8 b8 b8

b8

b8

b8

b8

b8

b8

b8

b8

Murraywid, Sumaya A. <SMurraywid@FDIC.gov>

b8

b8

Sheeren, Matthew L. <MSheeren@FDIC.gov>

b8

Subject: RE: b4,b8 Update

Hi All,

As there were several questions about b4,b8 I wanted to provide closure and some assurances that the DDA accounts are small relative to b4,b8 footings b4,b8 As of 2/28/23 b4,b8 DDAs total b4,b8 down from b4,b8 at 9/30/22. There are also CDs As of 2/28/23 they total b4,b8 up from b4,b8 at 9/30/22. As of I don't have much to add from a paragraph that I provided before and some notes that CM b8 and CM b8 took based on a call with CEO b4,b8 I don't have much more to add than what is below as our focus was b4,b8 footings and wire flows.

b4,b8

b4,b8

b4,b8 Relationship (Source FDIC Examiner **b8** Draft Conclusion Memo)

At the 8/22/22 Visitation, the **b4,b8** relationship was reviewed by DFPI EI **b8** **b4,b8** is considered a **b4,b8** involved in cryptocurrency transactions. However, the accounts were not being utilized for crypto-asset activity **b4,b8**
b4,b8

However, management provided information on the last day of the on-site portion of the examination (2/10) indicating that the accounts are or will be utilized for cryptocurrency activity. Below is an excerpt from a document provided by management relating to recent discussions with **b4,b8** management:

b4,b8

Upon request for an updated review of this relationship and recent transactional activity, management had not provided this information as of the writing of this memo.

b4,b8 Relationship (Source FDIC Case Managers **b8** based on phone call with
CEO **b4,b8**

b4,b8

Best,

b8

Senior Risk Management Examiner
Federal Deposit Insurance Corporation

b8

b6

[fdic.gov](https://www.fdic.gov)

b8

From: **b8**
Sent: Thursday, April 27, 2023 7:05 PM
To: FDIC San Francisco Regional Office
Subject: RADD Room

a. Include email: Yes
b. Institution Name: **b4,b8**
c. City:
d. State:
e. Division: RMS
f. Folder: Correspondence
g. Source: RO
h. Doc Name: Miscellaneous
i. Description: April 27, 2023, internal discussion of crypto concerns.

At the internal discussion, it was decided that DCP will look at **b8** during their start date 5/15/2023 exam to see if anything crypto related was initiated. If no, an out of scope letter will be sent to the board regarding both **b8** and **b8** in conjunction with a WO review of the letter. We are particularly interested if **b8** If yes, then it is possible that the activity is in scope and the situation will be reviewed further with the WO.

From: **b8**
Sent: Thursday, April 27, 2023 4:49 PM
To: **b8**
Cc: **b8** Muraywid, Sumaya A.
<SMuraywid@FDIC.gov>; **b8**
Subject: RE: **b4,b8** Meeting to discuss the next steps related to the bank's crypto - related customer **b4,b8**

Hello All,

Thanks for the great discussion, here are the two questions we would be interested in getting an update on. Again, the first really is the key, do any of these accounts hold customer fund. If so, the second becomes relevant, is anything being said to those customers about FDIC pass through insurance.

1. Provide a detailed description of activity in each individual **b4,b8** deposit account, including the purpose of account and transactions and if an **b4,b8** USD funds are held at the bank.
2. Provide documentation of any internal or external analysis conducted to determine whether disclosures, marketing, or other materials reflects availability of FDIC deposit insurance or pass through deposit insurance through the Bank, if applicable.

Also sharing one of our emails with **b8** team from the S&S exam that has some useful information. Please let us know what you hear and we can share our thoughts if any additional review is needed of if this relationship is out-of-scope.

Much appreciated,

b8

Consumer Compliance Technology Specialist
FDIC | Division of Depositor and Consumer Protection

b6

-----Original Appointment-----

From **b8**

Sent: Saturday, April 22, 2023 5:11 PM

To **b6** Muraywid, Sumaya A.

b6

Cc:

b6

Subject: **b4,b8** Meeting to discuss the next steps related to the bank's crypto - related customer, **b4,b8**

When: Thursday, April 27, 2023 4:00 PM-4:30 PM (UTC-06:00) Central Time (US & Canada).

Where: Microsoft Teams Meeting

b4,b8

Meeting to discuss the next steps related to the bank's crypto - related customer, **b4,b8**

Crypto activity per **b7(E),b8** On 09/28/2022, bank management sent a notification letter to the FDIC in response to FIL-16-2022 stating that the bank currently does not directly engage in crypto-related activities. However, they were sending the letter as a cautionary measure. In the letter, the bank explains that they also serve another FinTech that they know handles cryptocurrency **b4,b8** This customer's operation consists of providing their clients with **b4,b8** However, the bank says that they have an understanding with the customer that only their initial investment funds will be placed with the bank and no crypto-asset related transactions will be conducted through the bank.

Draft exam confidential section comment:

Crypto Customers

Given that **b4,b8** serves as a custodian of crypto customers, examiners collaborated with the Washington Office (RMS PPD and RMAS) as well as DCP. Accordingly certain documents were uploaded to a **b7(E),b8** Chief, Emerging Technology Section Sumaya Muraywid is the Point of Contact.

b4,b8

exited the bank as of 03/06/2023. However, the FDIC was concerned that deposit insurance representations might still be made after closure. Examiners confirmed that **b4,b8** no longer references

b4,b8

on its

b4,b8

page of its website.

The latest information for **b4,b8**, the only remaining FinTech customer, was uploaded to the aforementioned **b7(E)**. The deposit accounts reflects capital raised, but at this time, there does not appear to be actual cryptocurrency activity yet. However, the information provided indicates that cryptocurrency activity is expected in the future. Accordingly, this relationship should be reviewed at the next visitation or examination.

Compliance exam scheduled to start on 5-15-2023.

If needed, please invite others.

Microsoft Teams meeting

b7(E)



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

New York Regional Office

May 19, 2023

Board of Directors

b4,b8

Subject: Response to Notification Regarding Crypto-Related Activities

Dear Members of the Board:

The FDIC acknowledged the notification provided by **b4,b8** (Bank) on April 20, 2022, regarding the Bank's intent to engage in crypto-related activities. The notification stated that on February 1, 2022, the Bank joined **b4,b8** **b4,b8** a provider of technology, would enable **b4,b8** customers to buy, sell and hold bitcoin and Ether. The notification was provided pursuant 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 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 FIL also encourages institutions to notify their state regulator. On September 1, 2022, the FDIC sent a letter to the Board requesting information necessary to allow the FDIC to assess the safety and soundness, consumer protection, and financial stability implications of such activities.

In a letter dated April 5, 2023, Chairman and CEO **b4,b8** stated that the Bank had not implemented the proposed activity and is not pursuing crypto-related activities. The FDIC acknowledges the Bank's updated status related to this activity. We request that the Bank notify this office if the status of this activity, or other crypto-related activity changes in the future. 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.

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 **b8** at **b6** or Review Examiner **b8** at **b6**.

Sincerely,
Frank R. Hughes
Regional Director

cc:

b8
Federal Reserve Bank of New York

REL0000042465

b8

From: **b8**
Sent: Sunday, July 23, 2023 11:47 AM
To: FDIC San Francisco Regional Office
Subject: RADD Room

a. Include email: Yes
b. Institution Name: **b4,b8**
c. City:
d. State:
e. Division: RMS
f. Folder: Correspondence
g. Source: RO
h. Doc Name: Miscellaneous
i. Description: Internal discussion on crypto "In Scope/Out of Scope" memo.

From: **b8**
Sent: Wednesday, July 19, 2023 3:19 PM
To: **b8** **b8** Sheeren, Matthew L.
<MSheeren@FDIC.gov>
Cc: **b8**
Subject: RE: **b4,b8** File Memo and "Out of Scope" Bank Letter

So long story short with WO is they are advising no changes to the letter even with **b4,b8** going through **b4,b8** I am somewhat surprised by that, but we have it in writing regarding how they would like it handled.

The one thing I am not comfortable recommending to our RO management is WO's recommendation in this email chain that I highlighted in **b8**. My interpretation of the suggestion is that WO wants the Region to take full responsibility of the decision for this being "out-of-scope". While the letter sent to the bank is clearly from the region, I think it is very important for our internal memo to note that WO was involved with this decision. So I chatted with **b8** and we both agreed to take the WO suggestion in **b8** and soften the language to include both Regional and Washington references.

So next steps for **b8** /Matt, **b8**

Review the following documents that I cleaned up from WO:

- (Review in its entirety) Letter: WO Staff Draft **b4,b8** Out of Scope Lt **b4,b8** Clean
- (I think you are fine just to review the track changes): Internal memo: RI Draft **b4,b8** Crypto In-Scope Out-of-Scope Memo 6-15-2023 Post Wo Review

From **b8** Email: "I guess that the next step would be to see **b8**, Matt, and **b8** have any edits to the attached documents. Then pass on up to Paul and Dana, and then to Kathy. If Kathy Oks, then back to the WO for their concurrence, and then mail out the letter."

Call if this is confusing – thanks

b8

From: b8

Sent: Monday, July 10, 2023 8:48 AM

To: Rapp, Laura A. <LRapp@FDIC.gov>; Sheeren, Matthew L. <MSheeren@FDIC.gov>;

b8

b8

Subject: FW: b4,b8 File Memo and "Out of Scope" Bank Letter

Hi All:

Just a “gentle reminder” that this is still an open item for your review.

If OK, we need to send up to Paul, Dana, and Kathy for their review, and then back to the WO before issuing.

The email chain is below that contains comments from Sumaya.

Regards,

b8

From: b8

Sent: Friday, June 23, 2023 11:51 AM

To: Muraywid, Sumaya A. <SMuraywid@FDIC.gov>;

b8

b8

; Sheeren, Matthew L. <MSheeren@FDIC.gov>;

b8

b8

b8

<MOgren@FDIC.gov>; Ogren, Michelle (Shelly)

b8

Subject: RE: b4,b8 b4,b8 File Memo and "Out of Scope" Bank Letter

Hi Sumaya and b8 Thanks for your review. I have included your suggested language below in the attached memo. The bank letter is also attached.

Hi b8 Thanks for your review. I have included your DCP comment in the memo.

I guess that the next step would be to see if b8, Matt, and or b8 have any edits to the attached documents. Then pass on up to Paul and Dana, and then to Kathy. If Kathy Oks, then back to the WO for their concurrence, and then mail out the letter.

Thanks,

b8

From: Muraywid, Sumaya A. <SMuraywid@FDIC.gov>

Sent: Friday, June 23, 2023 10:02 AM

To: [REDACTED] **b8**

[REDACTED] **b8**; Ogren, Michelle (Shelly) <MOgren@FDIC.gov>

Cc: Sheeren, Matthew L. <MSheeren@FDIC.gov>; [REDACTED] **b8**

[REDACTED] **b8**

Subject: RE: [REDACTED] **b4,b8** [REDACTED] **b4,b8** File Memo and "Out of Scope" Bank Letter

Hi [REDACTED] **b8**

Thank you for sharing the documents with us.

Attached is our feedback on the letter to the bank, we propose that it be streamlined.

On the memo, our suggestion is to change the Conclusion/Recommendation section of the Memo to explicitly state the region's recommendation. Something like "The region does not believe the bank's activities fall within the scope of EIL-16-2022 based on the information provided by the bank and reviewed during the ongoing DCP exam. The region will send an out-of-scope letter to the bank notifying it of our determination following the WO's concurrence."

Thank you and please let us know if you have any questions,

Sumaya / [REDACTED] **b8**

From: [REDACTED] **b8**

Sent: Tuesday, June 20, 2023 11:43 AM

To: [REDACTED] **b8**

Ogren, Michelle (Shelly) <MOgren@FDIC.gov>

Cc: Sheeren, Matthew L. <MSheeren@FDIC.gov>; [REDACTED] **b8**; Muraywid, Sumaya A.

<SMuraywid@FDIC.gov>; [REDACTED] **b8**

Subject: RE: [REDACTED] **b4,b8** [REDACTED] **b4,b8** File Memo and "Out of Scope" Bank Letter

Hi, Richard.

I updated the memo to include SF DCP's input. We concur with your out-of-scope determination on [REDACTED] **b4,b8** and

[REDACTED] **b4,b8**

Thanks,

[REDACTED] **b8**

Consumer Compliance Technology Specialist
25 Jessie Street at Ecker Square
San Francisco, CA 94105

[REDACTED] **b8**

[REDACTED] **b8**

FDIC

From: [b8]
Sent: Thursday, June 15, 2023 12:05 PM
To: [b8] Ogren, Michelle (Shelly)
<MOgren@FDIC.gov> [b8]
Cc: Sheeren, Matthew L. <MSheeren@FDIC.gov>; [b8] Muraywid, Sumaya A.
<SMuraywid@FDIC.gov>; [b8]
Subject: FW: [b4,b8] [b4,b8] and [b4,b8] File Memo and "Out of Scope" Bank Letter

Hi [b8] and Shelly:

The attached draft file memo and bank letter are available for your review. As noted below, DCP memo input is needed so I have included [b8] on this email.

Hi [b8]

Similar to [b4,b8], we need DCP to review and provide a comment in the file memo. On the attached draft memo, I highlighted in red your comment regarding [b4,b8] please update the comment for [b4,b8] A Compliance exam is in process with [b8]

Hi Sumaya:

I know that you mentioned that the Region could act without a WO review. However, [b8] suggested that I cc you.

Thanks,

[b8]

OFFICE MEMORANDUM

Federal Deposit Insurance Corporation

July 27, 2023

To: Larisa Collado
Chief, Risk Management and Applications, RMS

Sumaya Muraywid
Senior Examination Specialist, RMS

b8

Consumer Compliance Technology Specialist, DCP

Through: Laura A. Rapp
Assistant Regional Director, RMS

From: **b8**
Case Manager, RMS

Subject: **b4,b8** Determine the "In
Scope/Out of Scope" Applicability of FIL-16-2022 for Crypto-Related Activities
(FIL-16-2022)

Bank Overview/Structure/Summary:

The Bank is a **b4,b8** Minority Depository Institution (MDI) headquartered in

b4,b8

b4,b8

b4,b8

The Bank currently operates

b4,b8

b4,b8

b4,b8

The Bank provides business-banking services to the **b4,b8** Specific services include remote deposit, E-banking, mobile banking, commercial and investor real estate loans, business loans and lines of credit, Small Business Administration loans, mortgage loans, trade finance and a full range of depository accounts.

The last examination was an FDIC only independent examination with a start date of November 29, 2021, and an as of date of September 30, 2021. **b4,b8** However, a joint examination with a start date of January 23, 2023, and an as of date of September 30, 2022, is in the process of review. **b4,b8** with both agencies agreeing to **b4,b8** Due to a

b4,b8

The

REL0000042467

b4,b8

On September 28, 2022, the Bank proactively notified the FDIC of two activities related to FIL-16-2022 involving **b4,b8**

RMS Analysis of “In Scope/Out of Scope” Applicability of FIL-16-2022 Notification of Engaging in Crypto-Related Activities (FIL-16-2022): **b4,b8**

b4,b8

The Bank terminated its relationship with **b4,b8** on March 6, 2023, due to the growing risks associated with this company and all accounts are closed. **b4,b8** is involved with digital assets, and **b4,b8**

b4,b8 The Bank provided fund transfer services by utilizing the bank’s domestic and international wire services, and **b4,b8** had considerable deposit accounts at the Bank which at one time approximated **b4,b8**

b4,b8 It is believed that there was no digital asset involved activity between the Bank and **b4,b8**

b4,b8 The Bank had no losses associated with the involvement **b4,b8**

b4,b8

Given the activities of **b4,b8** and that the relationship was terminated on March 6, 2023, and with consultation with the Washington Office, SF RMS considers this activity to be out of scope of FIL 16-2022.

RMS Analysis of “In Scope/Out of Scope” Applicability of FIL-16-2022 Notification of Engaging in Crypto-Related Activities (FIL-16-2022): **b4,b8**

b4,b8

As described by Bank President **b4,b8** **b4,b8**

b4,b8

b4,b8

The average account sizes are small (\$120 per President **b4,b8** has their own platform and is a **b4,b8** company. The Bank's relationship with **b4,b8**

b4,b8 The relationship was brought into the Bank from their **b4,b8** Branch. Since the recently completed Risk examination scope did not include a comprehensive review of crypto/digital asset concerns, the subsequent DCP start date May 15, 2023, examination scope included a review of **b4,b8** account/digital asset activities.

On June 5, 2023, Compliance EIC **b4,b8** reported that he reviewed the account activity and indicated that the activity is related to investor/venture capital related activities, and that there was no evidence of digital asset involvement related to **b4,b8** accounts at the Bank. As a result, an "Out of Scope" letter will be sent to the board, with a reminder to notify the Regional Director of any intent to engage in digital assets related activities with **b4,b8**. The letter will also mention **b4,b8**. This plan of action was reached in consultation with the Washington Office.

Division of Depositor and Consumer Protection (DCP) Analysis:

San Francisco DCP has been involved with the Bank's crypto notice and this associated analysis. On June 20, 2023, Consumer Compliance Technology Specialist **b8** concurred with San Francisco RMS's determination that the Bank's relationship with **b4,b8** and **b4,b8** is outside the scope of FIL-16-2022.

At the last examination dated **b4,b8** Compliance was rated **b4,b8** and CRA was rated **b4,b8**

Conclusion/Recommendation:

The region does not believe the bank's activities fall within the scope of FIL-16-2022 based on the information provided by the bank and reviewed during the ongoing DCP exam. The region will send an out-of-scope letter to the bank notifying it of our determination following the WO's concurrence.

b8

From: **b8**
Sent: Friday, December 22, 2023 11:17 AM
To: FDIC San Francisco Regional Office
Subject: FW: RADD Room

Importance: Low

NONPUBLIC//FDIC INTERNAL ONLY

a. Include email: Yes

b. Institution Name: **b4,b8**

c. City: **b4,b8**

d. State: **b4,b8**

e. Division: RMS

f. Folder: Correspondence

g. Source: RO

h. Doc Name: Miscellaneous

i. Description: **b4,b8**

b7(E),b8

b8

Federal Deposit Insurance Corporation
Case Manager

b6

From: **b8**
Sent: Friday, December 22, 2023 9:10 AM
To: **b8**
Subject: FW: **b7(E),b8** - activity updated
Importance: Low

NONPUBLIC//FDIC INTERNAL ONLY

FYI **b4,b8** So much for staying away from crypto related deposits.

From: **b8**
Sent: Thursday, December 21, 2023 2:59 PM
To: Valderrama, Jaclyn M. <jvalderrama@FDIC.gov>
Cc: **b8**
Subject: **b7(E),b8** - activity updated
Importance: Low

This email is to inform you that an Activity Record in the **b7(E),b8**
has been updated by **b8** and needs to be reviewed by an RMS ARD.

Bank: **b4,b8**
Activity: Deposit Services

Sub-Activity (if applicable): Digital Asset Exchanges' Corporate and Settlement

Status: Live

FDIC Awareness: Notification per FIL-16-2022

Third Party (if applicable):

Activity Notes: On December 19, 2023, the bank notified the Region that they recently opened (date not provided) a new account for [b4,b8] for their business operations only. Bank management stated that the account is a business checking account with no interest rate. Bank management indicates they performed due diligence on the relationship, including a BSA and Compliance review. The bank also indicated that multiple management members had conversations with [b4,b8] and came to a comfort level that with [b4,b8]

[b4,b8] The bank indicated that they made it clear to the [b4,b8] that the account would only be for their regular business operations, and we would not open any accounts for the purpose of loading and unloading the clients' crypto wallets for any exchanges. The bank stated that they created the following guardrails on the relationship: "• The BSA officer and the RM are to continue monitoring their account activity on an ongoing basis and alert Executive Management of any changes as agreed upon with the client. • Any found changes to the account balances above the initial [b4,b8] and or any balance fluctuation with an increase of [b4,b8] above the opening account balance will require documented approval of the SVP, Director of Operations and Compliance, and a secondary approval of either the COO/CFO and/or the President and CEO in order to keep the increased funds in the account. (Documentation will be noted in the account notes in the Bank's CRM system, Connections, and also in the HRA folder.) • Prior to the Bank allowing this client to have a larger relationship with the bank, defined as more than [b4,b8] the Bank must present this request to the Board Executive Committee. Justification for this larger relationship decision should be included and documented." As of 12/21/23, the Region is working on a acknowledgement letter which will include a request list. The request list's goal will be to understand if the bank has appropriately confirmed that the funds being placed in the bank are actually corporate funds.

Assigned ARD Reviewer: VALDERRAMA, JACLYN (JVALDERRAMA)

b7(E)



January 5, 2023

Board of Directors

b4,b8

Subject: Acknowledgement of the Notification and Subsequent Suspension of Exploratory Process Regarding Crypto-Related Activities

Dear Members of the Board:

The FDIC acknowledges the notification provided by **b4,b8** (the Bank) on September 12, 2022, regarding the Bank's intent to explore the offering of bitcoin services to customers through third parties. The notification was provided pursuant 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. The FDIC acknowledged the Bank's notification and requested additional information regarding the proposed activity in a letter dated November 1, 2022.

By subsequent letter dated November 15, 2022, President and Chief Executive Officer **b4,b8** **b4,b8** stated that the Bank has suspended the exploratory phase for new bitcoin services offered to **b4,b8** customers in conjunction with **b4,b8** and certain of its affiliates, and technology providers **b4,b8** **b4,b8** also stated that if the Bank decides to restart the exploratory process, the FDIC and **b8** will be notified. At that time, the Bank will provide, when readily available, all requested documents outlined in the FDIC's November 1, 2022 letter. The FDIC acknowledges the Bank's updated status related to this activity. We request that the Bank notify this office if the status of this activity, or other crypto-related activity, changes in the future.

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 **b8** at **b6** or Review Examiner **b8** at **b6**

b6 Written correspondence should be addressed to my attention at the New York

January 5, 2023

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

cc:

b8

b4,b8

January 10, 2023

b8

Review Examiner

FDIC – Division of Depositor and Consumer Protection

b8

b8

This letter is in regards to the June 21, 2022 Compliance Report of Examination and the request to ensure that appropriate controls are in place to minimize the potential for customer confusion regarding the bank's arrangement with **b4,b8** to place kiosks inside of the bank branches.

We placed labels on the brochures and the labels include the following five bullet points: Not FDIC Insured, Not a deposit or bank product, Not insured by any Federal Government Agency, Not guaranteed by the bank, May go down in value. These same bullet points are on laminated paper that cover the key pad on the bitcoin machines. The users of the machine would have to lift the paper in order to access the machine.

We emailed **b4,b8** to ask that they add the 5 bullet points to the QR code information and to the actual brochure. We also asked that they place the notice, Not FDIC Insured on the location page for our branches and on the main page. **b4,b8** has added the Not FDIC Insured to the location page for our branches and are working on getting it updated on their main page.

Please let me know if there is anything further that you need or if you would like pictures of what we have done. Thanks!

Sincerely,

b4,b8



January 6, 2023

Board of Directors

b4,b8

Subject: Engagement in Crypto-Related Activities

Dear Members of the Board:

In November 2021, **b4,b8** (Bank) management discussed the Bank's engagement in activity with **b4,b8** with FDIC field and regional office staff. **b4,b8** offered digital **b4,b8** which offered a **b4,b8** **b4,b8** using blockchain technology. **b4,b8** maintained a deposit account at the Bank to hold a portion of the U.S. dollars exchanged for digital **b4,b8**. During the July 5, 2022, FDIC examination, the FDIC requested information necessary to allow the FDIC to assess the safety and soundness, consumer protection, and financial stability implications of the activity. Subsequently, in an email dated November 22, 2022, Executive Vice President Chief Risk Officer **b4,b8** stated that the Bank is no longer engaging in digital-based activity with **b4,b8** which ceased offering digital **b4,b8** in **b4,b8**. The FDIC acknowledges the Bank's updated status related to this activity.

We request that the Bank notify this office if the status of this activity, or other crypto-related activity, changes in the future. Please refer to Financial Institution Letter (FIL), FIL-16-2022 Notification of Engaging in Crypto-Related Activities which 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. 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.

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 **b8** at **b6** or **b8**, or Review Examiner **b8** at **b6** or **b8**.

Sincerely,
Frank R. Hughes
Regional Director

cc:

b8

Federal Reserve Bank of Boston



Federal Deposit Insurance Corporation
Division of Risk Management Supervision
15 Braintree Hill Office Park, Braintree, MA 02184-8701

b8

b5

Board of Directors

b4,b8

Subject: Engagement in Crypto-Related Activities

Dear Members of the Board:

The FDIC and [b8] acknowledges the notification provided by [b4,b8] (Bank) dated April 20, 2022, regarding the Bank's engagement in activity with [b4,b8] which offered a payment program at [b8] using blockchain technology. [b4,b8] maintained a deposit account at the Bank to hold a portion of the U.S. dollars exchanged for [b4,b8]. The notification was provided pursuant 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. The FIL also encourages institutions to notify their state regulator.

In an email dated December 9, 2022, Senior Vice President [b4,b8] provided an update on the relationship and noted the Bank is no longer engaging in the activity outlined in the Bank's notification. The FDIC acknowledges the Bank's updated status related to this activity. We request that the Bank notify the FDIC and Division if the status of this activity, or other crypto-related activity, changes in the future. Written correspondence to the FDIC should be addressed to Frank Hughes 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. [b8]

b8

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). [b8]

[b8] If you have any questions, please contact FDIC Case Manager [b8] at [b6] or [b8] or Review Examiner [b8] at [b6] or [b8] [b6]

b8

b8

-2-

January X, 2023

b8

Sincerely,
Frank R. Hughes
Regional Director

b8

cc: Federal Reserve Bank of Boston



Federal Deposit Insurance Corporation
Division of Risk Management Supervision
15 Braintree Hill Office Park, Braintree, MA 02184-8701

b8

January 17, 2023

Board of Directors

b4,b8

Subject: Engagement in Crypto-Related Activities

Dear Members of the Board:

The FDIC and **b8** acknowledges the notification provided by **b4,b8** (Bank) dated April 20, 2022, regarding the Bank's engagement in activity with **b4,b8** which offered a **b4,b8** using blockchain technology. **b4,b8** maintained a deposit account at the Bank to hold a portion of the U.S. dollars exchanged for digital **b4,b8**. The notification was provided pursuant 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. The FIL also encourages institutions to notify their state regulator.

In an email dated December 9, 2022, Senior Vice President **b4,b8** provided an update on the relationship and noted the Bank is no longer engaging in the activity outlined in the Bank's notification. The FDIC acknowledges the Bank's updated status related to this activity. We request that the Bank notify the FDIC and **b4,b8** if the status of this activity, or other crypto-related activity, changes in the future. Written correspondence to the FDIC should be addressed to Frank Hughes 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. Written correspondence to the **b4,b8**

b8

January 17, 2023

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) and **b8**

b8 If you have any questions, please contact FDIC Case Manager **b8** at **b6** or **b8** or Review Examiner **b8** at **b6** or **b8**. At the **b8** please contact **b8** at **b6** or

b8

Sincerely,
Frank R. Hughes
Regional Director

cc: Federal Reserve Bank of Boston

b8



January 17, 2023

Board of Directors

b4,b8

Subject: Engagement in Crypto-Related Activities

Dear Members of the Board:

In November 2021 **b4,b8** (Bank) management discussed the Bank's proposed engagement in activity with **b4,b8** with FDIC field and regional office staff. **b4,b8** offered digital **b4,b8** which was a **b4,b8** **b4,b8** using blockchain technology. **b4,b8** maintained a deposit account at the Bank to hold a portion of the U.S. dollars exchanged for digital **b4,b8**. During the July 5, 2022, FDIC examination, the FDIC requested information necessary to allow the FDIC to assess the safety and soundness, consumer protection, and financial stability implications of the activity. Subsequently, in an email dated November 22, 2022, Executive Vice President Chief Risk Officer **b4,b8** stated that the Bank is no longer engaging in digital-based activity with **b4,b8** which ceased offering digital **b4,b8** in **b4,b8**. The FDIC acknowledges the Bank's updated status related to this activity.

We request that the Bank notify this office if the status of this activity, or other crypto-related activity, changes in the future. Please refer to Financial Institution Letter (FIL), FIL-16-2022 Notification of Engaging in Crypto-Related Activities which 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. 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.

b4,b8

- 2 -

January 17, 2023

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 **b8** at **b6** or **b8** or Review Examiner **b8** at **b6** or **b8**

Sincerely,
Frank R. Hughes
Regional Director

cc:

b8

Federal Reserve Bank of Boston

REL0000042479

b4,b8

b8

From: Hughes, Frank R.
Sent: Tuesday, January 24, 2023 1:49 PM
To: Kaemingk, Jessica A.
Cc: Strockoz, Scott D.; Amicangioli, Ashley; Ritchie, Kara L.; **b8**
Subject: RE: For your review: **b4,b8** Digital Asset Request Letter

Looks good -- thanks.

From: Kaemingk, Jessica A. <JKaemingk@fdic.gov>
Sent: Tuesday, January 24, 2023 10:51 AM
To: Hughes, Frank R. <FHughes@FDIC.gov>
Cc: Strockoz, Scott D. <SStrockoz@FDIC.gov>; Amicangioli, Ashley <AAmicangioli@FDIC.gov>; Ritchie, Kara L. <KRitchie@FDIC.gov>; **b8**
Subject: For your review: **b4,b8** Digital Asset Request Letter

Hi Frank -- Letter attached for your review. Because we are using the template, we do not need to send this one to WO for review.

Thanks!

Jessica

From: Amicangioli, Ashley <AAmicangioli@FDIC.gov>
Sent: Monday, January 23, 2023 10:31 PM
To: Kaemingk, Jessica A. <JKaemingk@fdic.gov>; Strockoz, Scott D. <SStrockoz@FDIC.gov>
Cc: Ritchie, Kara L. <KRitchie@FDIC.gov>; **b8**
Subject: **b4,b8** Digital Asset Request Letter

Jessica and Scott,

Attached are a draft letter and request list for **b4,b8** regarding their crypto facilitation activity via a planned partnership with **b4,b8**. We discussed this activity with Sumaya and **b8**. They confirmed that the template request list should be used and does not need to be reviewed by Washington first if we do not deviate from the template language.

If you are okay with us sending this, please pass along to Frank for his signature.

Thanks,
Ashley

Ashley M. Amicangioli
Assistant Regional Director, Division of Risk Management Supervision
Federal Deposit Insurance Corporation
15 Braintree Hill Office Park
Braintree, MA 02184

b6

b8

b4,b8

From: Amicangioli, Ashley
Sent: Monday, February 13, 2023 10:00 AM
To: **b8**
Subject: FW: **b4,b8** Letter to Bank - Digital Asset Activity - Project on Hold
Attachments: **b4,b8** Letter to Bank - Digital Asset Activity - Project on Hold v2 clean.docx

Please PDF this and put it through ECC to Frank.

From: Amicangioli, Ashley
Sent: Friday, February 10, 2023 3:18 PM
To: Muraywid, Sumaya A. <SMuraywid@FDIC.gov>; **b8**
Cc: Ritchie, Kara L. <KRitchie@FDIC.gov>; **b8**
b8; Macias, Sandra <SMacias@FDIC.gov>
Subject: RE: **b4,b8** Letter to Bank - Digital Asset Activity - Project on Hold

Hi all,

Thanks for the edits. See the attached updated version for review by Chris and Rae-Ann. We accepted all the edits you provided and added one new sentence to replace the one you deleted – I ran this language by Sumaya already. Our DRDs have reviewed and signed off on this version.

Once Rae-Ann and Chris sign off, we'll have Frank send it.

Thanks,
Ashley

From: Muraywid, Sumaya A. <SMuraywid@FDIC.gov>
Sent: Friday, February 03, 2023 9:03 AM
To: Amicangioli, Ashley <AAmicangioli@FDIC.gov>; **b8**
Cc: Ritchie, Kara L. <KRitchie@FDIC.gov>; **b8**
b8; **b8**; Macias, Sandra <SMacias@FDIC.gov>
Subject: RE: **b4,b8** - Letter to Bank - Digital Asset Activity - Project on Hold

Hi Ashley,

Thank you for drafting and for using **b4,b8** as the template. We made some edits for consistency with other letters as well. As you'll see in my comments to the second paragraph **b4,b8** was a bit unique because they received a letter asking them to expand. In this case **b4,b8** did not. Let me know if you have any questions/concerns and would like to discuss any edits.

Thanks.

From: Amicangioli, Ashley <AAmicangioli@FDIC.gov>
Sent: Wednesday, February 1, 2023 1:59 PM
To: Muraywid, Sumaya A. <SMuraywid@FDIC.gov>; **b8**
Cc: Ritchie, Kara L. <KRitchie@FDIC.gov>; **b8**

b8

Subject: b4 Letter to Bank - Digital Asset Activity - Project on Hold

Hi Sumaya and b8

b4,b8

notified us that they have put their crypto plans on hold until further notice. In light of this change, they asked that they no longer have to respond to our information request. We have drafted the attached letter to confirm that. We modeled this letter based on the language from a similar letter to b4,b8

Please review and let us know if you are okay with the region sending this to the bank.

Thanks,
Ashley

Ashley M. Amicangioli
Assistant Regional Director, Division of Risk Management Supervision
Federal Deposit Insurance Corporation
15 Braintree Hill Office Park
Braintree, MA 02184

b6

Pronouns: she/her
[fdic.gov](https://www.fdic.gov)

FDIC



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

New York Regional Office

February 13, 2023

Board of Directors

b4,b8

Subject: Response to Notification of Engagement in Crypto-Related Activities

Dear Members of the Board:

The FDIC acknowledges the notification provided by **b4,b8** (the Bank) on November 28, 2022, of the Bank's intent to offer customers the ability to buy, ~~sell~~ and hold crypto-assets through the Bank's mobile banking platform in conjunction with **b4,b8**. The notification was provided pursuant 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. On January 24, 2023, the FDIC sent a letter to the Board requesting information necessary to allow the FDIC to assess the safety and soundness, consumer protection, and financial stability implications of the proposed activities.

In his January 26, 2023 letter, President and Chief Executive Officer **b4,b8** advised the FDIC that the Bank has put its digital assets project on hold until further notice. The FDIC acknowledges the Bank's updated status related to this activity. As a result of the Bank's January 26, 2023 communication to the FDIC, the Bank no longer needs to respond to the FDIC's January 24, 2023 letter to the Board and accompanying information request. We request that the Bank notify this office if the status of this activity, or other crypto-related activity, changes in the future.

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/>.

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 **b8** **b8** or Review Examiner **b8**

Sincerely,

Frank R. Hughes
Regional Director

cc:

b8

REL0000042488



February 15, 2023

MEMORANDUM TO: Correspondence File

THROUGH: Richard E. Allen
Assistant Regional Director

FROM: [REDACTED] b8
Case Manager

SUBJECT: [REDACTED] b4,b8
Regional Office Meeting with [REDACTED] b4,b8 Leadership

Regional Office management and staff hosted an introductory meeting with members of [REDACTED] b4,b8 leadership team in the Kansas City Regional Office. CEO [REDACTED] b4,b8, President [REDACTED] b4,b8, and General Counsel [REDACTED] b4,b8 represented [REDACTED] b4,b8 RD Jim LaPierre, DRDs John Jilovec and Marianne Hartman, ARDs Rick Allen and E.J. Gowlovech, CM [REDACTED] b8, SE [REDACTED] b8, and SA RD [REDACTED] b8 represented the FDIC.

DRD Jilovec opened the meeting by asking CEO [REDACTED] b4,b8 for an overview of her vision for [REDACTED] b4,b8. She responded that the bank will continue to offer similar products and services, but with improved technology that improves the overall experience for the customer. The bank will operate with two strategic directions. First, [REDACTED] b4,b8 will continue as a community bank providing for the financial needs of the local community. Management is revisiting their CRA investments in effort to reduce “fancy people” CRA contributions (e.g., events with large parties and expensive dinners) for projects and programs that make more of a direct impact on the needs of the community. They are working with [REDACTED] b4,b8 the bank’s core system provider, to upgrade systems and applications so they are more end-user friendly. She stated that changes they implement with [REDACTED] b4,b8 would extend to all [REDACTED] b4,b8 community bank clients.

CEO [REDACTED] b4,b8 stated that the second strategic focus is enhancing the bank’s [REDACTED] b4,b8 model and working to find ways to improve the process. [REDACTED] b4,b8 has a large team of software engineers experienced in the development of data platforms, APIs, and data mining. The team will create programs that facilitate the interface of the bank’s core system with their third party partner. Management hopes to collaborate with large, A+ third parties with future product offerings. She provided [REDACTED] b4,b8, [REDACTED] b4,b8, Stripe, and [REDACTED] b4,b8 as examples of potential large third party partners for the bank. CEO [REDACTED] b4,b8 is confident they can work with these large firms given her experience and relationships with many of their executives. DRD Jilovec inquired about CEO [REDACTED] b4,b8 view of the bank’s future footings, and she responded that she would like to grow into one of the largest banks in the U.S., with the reputation of an elite team based in [REDACTED] b4,b8.

ARD Allen inquired about the origin of the relationship with [REDACTED] b4,b8. [REDACTED] b4,b8 Furthermore, [REDACTED] b4,b8 owns a minority interest in [REDACTED] b4,b8. CEO [REDACTED] b4,b8 stated that her position on the [REDACTED] b4,b8 board expired at the end of the year. General Counsel [REDACTED] b4,b8 stated that CEO [REDACTED] b4,b8 [REDACTED] b4,b8. She also stated the relationship originated from the time they spent with [REDACTED] b4,b8 [REDACTED] b4,b8 [REDACTED] b4,b8 was familiar with and comfortable with the management team at [REDACTED] b4,b8. They liked that [REDACTED] b4,b8 was limited to Bitcoin and [REDACTED] b4,b8.

b4,b8 management did not want to accept all crypto currencies as collateral at the start of this activity. General Counsel b4,b8 stated that management is not opposed to accepting other crypto currencies in the future, but they will restrict them to mature crypto currencies. They also liked that b4,b8 currently offers the product in the states they are licensed, so management could observe how the program worked and provided liquidity. b4,b8

b4,b8

b4,b8

b4,b8

CEO b4,b8 asked about the FDIC's opinion of crypto assets. RD LaPierre stated that the Kansas City Region and the FDIC are still learning the nuances of crypto-related activity and its impact on traditional banking. We are asking questions and gathering information from institutions engaging or considering engaging in crypto-related activities. We are not categorically opposed to banks engaging in crypto activities, but we need to ensure conduct the activity in a manner consistent with risk management expectations and consumer compliance requirements. DRD Jilovec added that they can expect the FDIC to soon pose additional questions regarding its planned b4,b8 and that we may have additional back and forth conversations as they respond and we learn more about the program.

The meeting concluded with President b4,b8 inquiring about potential periodic meetings between bank management and regional office personnel. He stated his opinion that the informal quarterly management updates are useful in keeping all parties aware of the bank's activities and the regulators' expectations (quarterly updates provided to FDIC and b8). The discussion concluded with supplementing the quarterly updates with periodic meetings either in-person or virtual. No decisions were made regarding specific timeframes for the periodic meetings.

b8

From: b8
Sent: Wednesday, March 15, 2023 3:20 PM
To: FDIC Chicago Regional Office; b8
Subject: FW: Please RADD

PDF Email Only

Business Line: RMS
Bank Name: b4,b8
City, State: b4,b8
Folder: Correspondence
Source: FO
Doc Name: Miscellaneous
Description: Email re: discussion on crypto plans

From: b8
Sent: Wednesday, March 15, 2023 10:44 AM
To: b8
Cc: Bush, Debbie J. <DBush@FDIC.gov>
Subject: RE: crypto-related b8 b4,b8

Hi b8

I just spoke to b4,b8 President b4,b8 said they are not pursuing any crypto related activities and said that based on the recent events related to FTX, they do not plan to pursue crypto related activities.

I'll get the interim contact into RADD by the end of this week.

Thanks!

b8

b8

Supervisory Examiner, Division of Risk Management Supervision
Federal Deposit Insurance Corporation

b8

b6

From: b8
Sent: Wednesday, March 08, 2023 11:00 AM
To: b8
Cc: Bush, Debbie J. <DBush@FDIC.gov>
Subject: FW: crypto-related b8 b4,b8

Hi b8

For the Interim Contact, could you please ask for an update on where their crypto plans stand? See the bottom of the email for the last we've heard from the bank.

Also, [b6,b8] please send me the Interim Contact, since I won't see that come through my RADD inbox. I'll then update Sumaya.

Thanks!!

[b8]

From: Muraywid, Sumaya A. <SMuraywid@FDIC.gov>

Sent: Wednesday, March 08, 2023 10:49 AM

To: [b8]

Cc: [b8] Macias, Sandra <SMacias@FDIC.gov>; Ties, Nicholas F. <nties@FDIC.gov>

Subject: RE: crypto-related [b8] [b4,b8]

[b4,b8] -- yes, if the SE can ask, that would be great. Thank you!

From: [b8]

Sent: Wednesday, March 8, 2023 11:45 AM

To: Muraywid, Sumaya A. <SMuraywid@FDIC.gov>

Cc: [b8] Macias, Sandra <SMacias@FDIC.gov>; Ties, Nicholas F. <nties@FDIC.gov>

Subject: RE: crypto-related [b8] [b4,b8]

Hi Sumaya,

I messaged the SE and he said an Interim Contact was due 2/20/23, but they haven't gotten to it yet. The next Joint exam is scheduled for 11/2023. When they do the Interim Contact, would you like the SE to ask where they are with crypto plans?

From: Muraywid, Sumaya A. <SMuraywid@FDIC.gov>

Sent: Wednesday, March 08, 2023 10:25 AM

To: [b8]

Cc: [b8]; Macias, Sandra <SMacias@FDIC.gov>; Ties, Nicholas F. <nties@FDIC.gov>

Subject: RE: crypto-related [b8] [b4,b8]

[b8] -- what we were working on didn't really materialize. Is there a midpoint coming up with the bank any time soon?

From: Muraywid, Sumaya A.

Sent: Tuesday, October 25, 2022 7:24 PM

To: [b8]

Cc: [b8] Ahrenholtz, Jason P. <jahrenholtz@FDIC.gov>

Subject: RE: crypto-related [b8] [b4,b8]

Hi [b8] -- thanks for circling back. We're still working on something. Can you check back with me in a couple weeks? Thanks.

From: [b8]

Sent: Tuesday, October 25, 2022 12:14 PM

To: Muraywid, Sumaya A. <SMuraywid@FDIC.gov>

Cc: [b8] Ahrenholtz, Jason P. <jahrenholtz@FDIC.gov>

Subject: RE: crypto-related [b8] [b4,b8]

Hi Sumaya,

Circle back with you about this. Have you given any more thought to next steps for

b4,b8

b4,b8 Sorry I lost track in checking back with you – somehow a couple weeks turned into a couple months! ☺

Thanks,

b8

Case Manager

Division of Risk Management Supervision

Federal Deposit Insurance Corporation

Chicago Regional Office

b6

b8

From: Muraywid, Sumaya A. <SMuraywid@FDIC.gov>

Sent: Friday, September 02, 2022 10:08 AM

To: b8

Cc: b8 Ahrenholtz, Jason P. <jahrenholtz@FDIC.gov>

Subject: RE: crypto-related b8 b4,b8

Thanks, b8 I think it's fine to hold off on making that call for now. We're thinking about this type of situation more broadly and next steps. I can circle back to you later. Feel free to ping me in a few weeks if you don't hear back from me.

Have a good holiday weekend!

From: b8

Sent: Friday, September 2, 2022 11:04 AM

To: Muraywid, Sumaya A. <SMuraywid@FDIC.gov>

Cc: b8 Ahrenholtz, Jason P. <jahrenholtz@FDIC.gov>

Subject: RE: crypto-related b8 b4,b8

Hi Sumaya,

No, they have not submitted a notification. We learned of this at the recent (4/2022) Joint exam. In talking to b8 we have not discussed this with the bank since the exam's Board meeting, where management stated that they were not anywhere close to implementing and asked us to let them know if/when we hear more about permissibility. So it seems they're waiting to hear what we do. Would you like me to reach out to the bank and officially tell them to update us if their plans change, and then update this info b7(E),b8

Thanks,

b8

Case Manager

Division of Risk Management Supervision

Federal Deposit Insurance Corporation

Chicago Regional Office

b6

b8

From: Muraywid, Sumaya A. <SMuraywid@FDIC.gov>

Sent: Friday, September 02, 2022 9:22 AM

To: [REDACTED] b8

Cc: [REDACTED] b8 Ahrenholtz, Jason P. <jahrenholtz@FDIC.gov>

Subject: RE: crypto-related [REDACTED] b8 [REDACTED] b4,b8

H [REDACTED] b8

Thanks for the update. They have not submitted a notification, correct? Have they indicated they will notify us if their plans change?

Thanks

Sumaya

From: [REDACTED] b8

Sent: Friday, September 2, 2022 8:27 AM

To: Muraywid, Sumaya A. <SMuraywid@FDIC.gov>

Subject: FW: crypto-related [REDACTED] b8 [REDACTED] b4,b8

Hi Sumaya,

I have been assigned [REDACTED] b4,b8 for crypto monitoring, [REDACTED] b6 See below, however, regarding that we are not actively working this one.

Thank you!

[REDACTED] b8

From: Bush, Debbie J. <DBush@FDIC.gov>

Sent: Wednesday, August 31, 2022 1:20 PM

To: [REDACTED] b8

Subject: FW: crypto-related [REDACTED] b8 [REDACTED] b4,b8

For whoever takes [REDACTED] b4,b8 please contact Sumaya Muraywid and let her know that we are not actively working this one since the bank is not going to do anything until guidance comes out.

From: Cone, Kristy J. <KCone@FDIC.gov>

Sent: Wednesday, August 31, 2022 1:11 PM

To: [REDACTED] b8 [REDACTED] b8

Cc: Bush, Debbie J. <DBush@FDIC.gov>; [REDACTED] b8 Ogren, Michelle (Shelly)

<MOgren@FDIC.gov>

Subject: crypto-related [REDACTED] b8

[REDACTED] b6 has been covering the [REDACTED] b4,b8 crypto notification process. [REDACTED] b4,b8
[REDACTED] b6 So I need either Shelly or [REDACTED] b8 [REDACTED] b8

[REDACTED] b6 please discuss among yourselves and tell Debbie what you decide. Thanks.

Kristy J. Cone

Assistant Regional Director

Division of Risk Management Supervision
Federal Deposit Insurance Corporation
Chicago Regional Office

b6

kcane@fdic.gov

b8

From: **b8**
Sent: Tuesday, March 28, 2023 7:56 AM
To: FDIC San Francisco Regional Office
Cc: **b8**
Subject: FW: Notice of Engaging in Crypto-Related Activities.pdf

Please RADD email below. Thanks **b8**

Bank Name: **b4,b8**
Bank Location: **b4,b8**
Source: Bank
RADD Folder: Correspondence
Document name: WO Response to Crypto Notification

From: Muraywid, Sumaya A. <SMuraywid@FDIC.gov>
Sent: Monday, March 27, 2023 6:18 PM
To: **b8**
Cc: Macias, Sandra <SMacias@FDIC.gov>; Ties, Nicholas F. <nties@FDIC.gov>; Lyons, Thomas F. <TLyons@FDIC.gov>
Subject: RE: Notice of Engaging in Crypto-Related Activities.pdf

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b8

Thank you for sending. In addition to asking the bank to confirm that the funds are corporate funds (i.e., not end user funds), these additional clarifications would help:

- Provide additional information on the related services referenced in the Notification letter.
- Describe what 'servicing multiple non-interest bearing accounts for this customer' means.
- Will the accounts be solely operational accounts for the customer or will other entities be the ultimate beneficiaries of the funds? If other entities, describe how those entities are related to or conduct business with the customer.

We suggest obtaining those responses from the bank in writing.

As stated in the FDIC's Statement on Providing Banking Services, "Financial institutions that can properly manage customer relationships and effectively mitigate risks are neither prohibited nor discouraged from providing services to any category of customer accounts or individual customer operating in compliance with applicable state and federal law."

We would also suggest further follow-up on the bank's liquidity management and capital ratio implications. They indicate plans to move funds off balance sheet, but it is not clear how much, and how long it would take them to pull back on balance sheet to meet customer withdrawal needs.

Thanks

From: [REDACTED] **b8**
Sent: Monday, March 27, 2023 1:41 PM
To: Muraywid, Sumaya A. <SMuraywid@FDIC.gov>
Subject: Notice of Engaging in Crypto-Related Activities.pdf

b8

From: **b8**
Sent: Wednesday, April 26, 2023 10:38 AM
To: **b4,b8**
Cc: **b8**; Clark, Perissa Ali
Subject: Secure Email: Crypto Activity

Good morning: **b4,b8**

Below are some follow up questions in regards to the bank's notification to the FDIC of potential crypto activity. Reach out to me with any questions. As this is a process, additional questions may be necessary. Thank you for your help

b4,b8

- Provide the customer or business name involved in the crypto-related activity. Indicate whether the account will be in the customer's name or mining company's name.
- Please expand on what services/related services the bank plans on offering, including the letter's narrative that states "servicing multiple non-interest bearing accounts for this customer".
- Explain whether the account(s) will be solely operational accounts for the customer or if other entities will be the ultimate beneficiaries of the funds. If other entities, describe how those entities are related to or conduct business with the customer.
- Identify the source of the funds being placed in the bank.
- The letter states that "The Bank plans to take appropriate action to limit the scale of these deposits as necessary relative to capital levels through the utilization of liquidity management tools that allow the Bank to move them off its balance sheet while collecting fee income." Please provide any supporting documents for the previously noted statement, as well as a detailed plan regarding moving the funds off of the bank's balance sheet.
- What are the implications on the bank's liquidity and capital management/metrics?

b6,b8

Case Manager
San Francisco Regional Office
Federal Deposit Insurance Corporation



**DIVISION OF
RISK MANAGEMENT
SUPERVISION**

Dallas Regional Office

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

b8

May 19, 2023

Board of Directors

b4,b8

Subject: Crypto-Asset Notification Withdrawal

Dear Board Members:

On November 16, 2022, the bank provided notice to the FDIC and **b8** indicating plans to engage in certain crypto-asset related activities. Subsequently, staff from our offices held conversations with management in regards to these plans, and additional information was requested. This activity was also discussed as part of the ongoing joint examination.

A March 21, 2023, letter from the bank to the FDIC indicates, in part, that management has terminated all future plans to allow FinTech customers to have crypto-related services. This letter further indicates that any previous notification to the FDIC and **b8** regarding crypto-related services for customers could be considered withdrawn.

As a result of this March 21, 2023 correspondence, we are closing our files and consideration regarding crypto-related activities by the bank. If the Board and management later decide to pursue any crypto-related services or products, prior notification should be provided to our offices. Please refer to Financial Institution Letter 16-2022 for guidance on providing such notice to the FDIC. The bank is also required to provide prior notice to the FDIC and **b8** before making any material changes to the Strategic Plan prior to December 31, 2023, as noted in the

b4,b8

If you have any questions, please call FDIC Case Manager **b8** at **b6,b8** or **b8** at **b6,b8**. Correspondence to the **b8** should be sent to **b8** at the above address or it can be emailed to

b8. Please address all correspondence to the FDIC to Regional Director Kristie K. Elmquist. Written correspondence can be sent to the FDIC as a PDF document through

REL0000042498

b4,b8

Page 2

the FDIC's Secure Email portal (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 fdic.gov/secureemail.

Sincerely,

b6

Joseph A. Meade
Acting Deputy Regional Director
Federal Deposit Insurance Corporation

Sincerely,

b6,b8

cc:

b8

REL0000042498



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

Division of Risk Management Supervision
Division of Depositor and Consumer Protection
Kansas City Regional Office | (816) 234-8000

June 20, 2023

Board of Directors

b4,b8

Subject: Response to Notification of Engagement in Crypto-Related Activities

Dear Members of the Board:

The FDIC acknowledges the notification provided by **b4,b8** (Bank) on April 12, 2022, regarding the Bank's engagement to provide crypto-asset buy, sell, and hold services to customers through **b4,b8** on the bank's online platform provided by **b4,b8**. The notification was provided pursuant 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. During the May 27, 2022, FDIC examination, we requested initial information, and the bank provided additional information on August 8, 2022, which indicated plans were very preliminary and dependent on development progress by **b4,b8**. Periodic conversations regarding development progress were also held with bank management in September 2022 (at which time management reported **b4,b8** development delays), and in November 2022, (at which time management reported **b4,b8** development had stalled and that management planned to follow-up with **b4,b8** to understand its options).

During a phone call on May 1, 2023, President **b4,b8** stated that the Board has indefinitely paused pursuing the proposed crypto-related activities. The FDIC acknowledges the bank's updated status related to this activity. We request that you promptly notify this office if the status of this activity, or other crypto-related activity, changes.

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 **b8** or Review Examiner **b8** at **b6,b8**. 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 (securemail.fdic.gov) using the following e-mail address: KCMailroom@FDIC.gov.

Sincerely,

James D. LaPierre
Regional Director

cc: **b8**

REL0000042499

From: [b8]
To: FDIC Chicago Regional Office; RMS CHI SECRETARIES
Subject: Please RADD - FW: [EXTERNAL MESSAGE] RE: Secure email: [b4,b8] update
Date: Monday, July 3, 2023 8:13:35 AM
Attachments: [b4,b8]

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PDF Email & Attachment

Business Line: RMS
Bank Name: [b4,b8]
City, State: [b4,b8]
Folder: Correspondence
Source: Bank
Doc Name: Miscellaneous
Description: Notification – Cease involvement in cryptocurrency [b4,b8]

[b8]
Case Manager
Federal Deposit Insurance Corporation
300 S. Riverside Plaza; Ste 1700; Chicago, IL 60606
Cell [b6,b8]
[b8]
FDIC

From: [b8]
Sent: Friday, June 30, 2023 3:42 PM
To: Muraywid, Sumaya A. <SMuraywid@FDIC.gov>; [b8]
Subject: FW: [EXTERNAL MESSAGE] RE: Secure email: [b4,b8] update

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FYI on the [b4,b8] trust account that held cryptocurrency. Let me know if you need anything else; otherwise, I will presume this issue is resolved.

Thanks.

From: [b4,b8]
Sent: Friday, June 30, 2023 1:58 PM
To: [b8]
Subject: RE: [EXTERNAL MESSAGE] RE: Secure email: [b4,b8] update

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REL0000042501

recognize the sender and know the content is safe.

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Good afternoon [b8] I hope you are doing well.

I am pleased to report that we finally received the Trustee resignation paperwork from the attorney who is working with us on the issue for the [b4,b8] Trust, with that paperwork completing the process for our resignation as Trustee for the Trust (the Trust that holds the cryptocurrency). I have attached for your records a copy of that documentation showing that we have effectively resigned., and therefore any potential involvement of our bank in cryptocurrency is now a non-issue.

[b4,b8] still needs to sign the document, however, as noted above our involvement with this [b4,b8] is now over.

Thank you sincerely [b8] for your patience as we completed this procedural process.

Very best regards,

[b4,b8]

--- Originally sent by [b8] on Jun 8, 2023 11:02 AM ---

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No worries [b4,b8] Thanks for the update.

Please forward the resignation paperwork once you receive it, and I will forward on to my counterparts in Chicago and DC.

Thanks as always [b4,b8] Take care,

[b8]

From: [b4,b8]

Sent: Thursday, June 8, 2023 10:25 AM

To: [b8]

Subject: [EXTERNAL MESSAGE] RE: Secure email: [b4,b8] update

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Good morning [b8] I hop you are doing well.

REL0000042501

First, please excuse my delayed response to you as I have been trying to get a status report from the attorney who is assisting on the **b4,b8** modification, **b4,b8** I was finally able to connect with her this morning, and I am pleased to report that we are still on track to meet our June 30th target for closure of the Trust. Attorney **b4,b8** pledged to me that she would have the paperwork to us either this Friday or early next week to effect our resignation as Trustee of the **b4,b8**. Hopefully we will soon be out of any connection with crypto. YAY!

All the best,

b4,b8

--- Originally sent by **b8** on May 24, 2023 9:09 AM ---

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Good morning **b4,b8**

I hope all is well with you and your counterparts.

I just wanted to check in with you (on behalf of my Chicago and DC folks) to see if you still believe that the **b4,b8** account will be closed by June 30?

Also, did the insurance personnel at the FDIC adequately answer the question you and **b4,b8** had for me regarding pass-thru and escrow accounts?

Thanks as always **b4,b8**

b6,b8

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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

August 8, 2023

Board of Directors

b4,b8

Subject: Final Response to Notification of Engagement in Crypto-Related Activities

Dear Members of the Board:

The FDIC acknowledges the notification provided by **b4,b8** **b4,b8** (Bank) dated May 9, 2022, regarding the Bank's crypto-asset activities. The notification was provided pursuant to Financial Institution Letter (FIL), FIL-16-2022 Notification of Engaging in Crypto-Related Activities. FIL-16-2022 requested that all FDIC supervised institutions which intend to engage in, or 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. On May 31, 2022, the FDIC sent a letter to the Board requesting information necessary to allow the FDIC to assess the safety and soundness, consumer protection, and financial stability implications of the activity. On July 1, 2022, the Bank provided the FDIC with additional information on this activity. To follow-up on the information provided by the Bank, the FDIC requested additional information as part of the January 9, 2023 risk management examination.

On January 17, 2023, Senior Vice President (SVP) and Wealth management Officer **b4,b8** **b4,b8** stated that the bank planned to resign as trustee by **b4,b8**. In an email dated June 30, 2023, SVP and Wealth Management Director **b4,b8** confirmed that the Bank has resigned as Trustee for the **b4,b8** Trust, which held crypto-assets. The FDIC acknowledges the Bank's updated status related to this activity. We request that the Bank notify this office if the status of this activity, or other crypto-related activity, changes in the future.

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 **b8** at **b6,b8** or Review Examiner **b8** **b8** at **b6,b8**. 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.

REL0000042504

b4,b8

Page 2

Sincerely,

Gregory P. Bottone
Regional Director

cc:

b8

REL0000042504

b8

From: b8
Sent: Wednesday, August 30, 2023 12:55 PM
To: FDIC San Francisco Regional Office
Cc: b8 Clark, Perissa Ali; b8
Subject: RADD Room
Categories: b8 Category

NONPUBLIC//FDIC BUSINESS

- a. Include email: **Yes**
- b. Institution Name: b4,b8
- c. City: b4, b8
- d. State: b4,b8
- e. Division: **RMS**
- f. Folder: **Correspondence**
- g. Source: **Bank**
- h. Doc Name: **Miscellaneous from Bank**
- i. Description: **8-30-23** b4,b8 **Deposit Account Update**

From: b4,b8
Sent: Wednesday, August 30, 2023 10:54 AM
To: Clark, Perissa Ali <PaliClark@FDIC.gov>
Cc: b8 b8 b4,b8
<b4,b8>
Subject: RE: [EXTERNAL MESSAGE] Re: b4,b8 JS / SECURE MAIL

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Hi All –

I wanted to circle back on this and close the loop.

We put b4,b8 through an additional 30+ days of additional enhanced due diligence and have concluded that we will not be opening the accounts (unless significant future structural changes occurred at their company). We are in the process of notifying b4,b8 of our decision.

b4,b8

From: [REDACTED] b4,b8

Sent: Monday, July 17, 2023 9:15 AM

To: 'Clark, Perissa Ali' <PaliClark@FDIC.gov>

Cc: [REDACTED] b8

[REDACTED] b8

[REDACTED] b4,b8

[REDACTED] b4,b8

Subject: RE: [EXTERNAL MESSAGE] Re: [REDACTED] b4,b8 SECURE MAIL

Hi All – one additional factor that I wanted to share is the following, perhaps you are already aware of this:

See image below [REDACTED] b4,b8 became a crypto only platform ending their

[REDACTED] b4,b8

[REDACTED] b4,b8 om their platform. This is a significant change and does impact some of the risk of the situation and further demonstrates that these funds will be corporate only funds.

b4,b8

b4,b8

From: **b4,b8**

Sent: Wednesday, July 12, 2023 1:23 PM

To: 'Clark, Perissa Ali' <PaliClark@FDIC.gov>

Cc: **b8** **b8** **b8**

b4,b8
Subject: RE: [EXTERNAL MESSAGE] Re: **b8** / SECURE MAIL

Hi All-

Could we please re-open a proactive collaborative discussion relative to **b4,b8**

We do not want to consider future relationship with **b4,b8** without the full mutual understanding / collaboration with the FDIC and **b8**

As an update, see attached recently received by the Bank from **b4,b8** Generally, the attached discusses the following:

b8

Based on the above **b4,b8** is eagerly seeking an operating deposit bank relationship in conformance with the parameters of the **b4,b8** **b4,b8** **b4,b8**

b4,b8

Looking forward to your thoughts, guidance, and open discussion.

When can we meet?

Thanks

b4,b8

From: Clark, Perissa Ali <PaliClark@FDIC.gov>

Sent: Friday, June 9, 2023 5:04 PM

To: **b4,b8**

Cc: **b4,b8** **b4,b8**

b8

Subject: RE: [EXTERNAL MESSAGE] Re: **b4,b8** SECURE MAIL

ALERT: This is an external email.
Use caution when interacting with contents or sender of this email.

Thank you so much for the update, and have a great weekend!

From: **b4,b8**

Sent: Friday, June 09, 2023 4:01 PM

To: **b4,b8** **b8**

Cc: **b4,b8** **b8** **b4,b8**

b4,b8

Subject: RE: [EXTERNAL MESSAGE] **b4,b8** SECURE MAIL

CAUTION: External email. Do not click links or open attachments unless you recognize the sender and know the content is safe.

Perissa,

We received confirmation from **b4,b8** this morning that the wire had been posted to the instructed beneficiary account at **b4,b8**. There were no messages received today from **b4,b8** indicating it was being returned. Given that the wire was received by **b4,b8** yesterday, posted to the beneficiary account, with no return sent by close of the **b4,b8** today...we deem the wire to have been accepted.

Thanks,

b4,b8

b4,b8

From: **b4,b8**
Sent: Thursday, June 8, 2023 7:21 PM
To: **b4,b8** Clark, Perissa Ali <PaliClark@FDIC.gov>
Cc: **b4,b8** **b8** **b8**
Subject: Re: [EXTERNAL MESSAGE] Re: **b4,b8** / SECURE MAIL

Perissa,

The wire was sent around 2:00 pm MST today and we were advised that **b4,b8** was aware of the funds being sent. We do not anticipate it being returned, based on this knowledge, but will certainly keep you apprised. As of close of business we had not received any wire messages indicating a rejection.

Thanks

b4,b8
Chief Operating Officer
b4,b8

Get Outlook for iOS

From: **b4,b8**
Sent: Thursday, June 8, 2023 8:49:50 PM
To: Clark, Perissa Ali <PaliClark@FDIC.gov>
Cc: **b4,b8** **b8** **b8**
Subject: Re: [EXTERNAL MESSAGE] Re: **b4,b8** / SECURE MAIL

b4,b8 can comment on that. It is gone, so unless rejected, they have it.

From: Clark, Perissa Ali <PaliClark@FDIC.gov>
Sent: Thursday, June 8, 2023 8:46:25 PM
To: **b4,b8**
Cc: **b4,b8** **b8** **b4,b8**
Subject: RE: [EXTERNAL MESSAGE] Re: **b4,b8** / SECURE MAIL

ALERT: This is an external email.
Use caution when interacting with contents or sender of this email.

Thank you so much. When the information is available, please advise if **b4,b8** accepts the wire.

Thanks again,

Perissa Clark
[b6] cell

From: [b4,b8]
Sent: Thursday, June 08, 2023 5:34 PM
To: Clark, Perissa Ali <PaliClark@FDIC.gov>
Cc: [b4,b8]
[b8]
Subject: Re: [EXTERNAL MESSAGE] Re: [b4,b8] / SECURE MAIL

CAUTION: External email. Do not click links or open attachments unless you recognize the sender and know the content is safe.

Hi Perissa

[b4,b8] had it overnight, then returned it to us today.

We worked with [b4,b8] and they asked us to wire it to [b4,b8] So it was back with us for about an hour or two before going to [b4,b8]

[b4,b8] our COO if more information is needed.

Thanks

[b4,b8]

From: Clark, Perissa Ali <PaliClark@FDIC.gov>
Sent: Thursday, June 8, 2023 7:39:11 PM
To: [b4,b8]
Cc: [b4,b8]
[b8]
Subject: RE: [EXTERNAL MESSAGE] Re: [b4,b8] SECURE MAIL

ALERT: This is an external email.
Use caution when interacting with contents or sender of this email.

Hello, I wanted to follow up to confirm whether [b4,b8] accepted the wire from [b8] on behalf of [b8]

Please advise.

Thank you and regards,

Perissa Ali Clark
Assistant Regional Director, Risk Management Supervision
Federal Deposit Insurance Corporation
25 Jessie Street at Ecker Square
San Francisco, California 94105
Office: 415-808-8032
Cell: [b6]
paliclarck@fdic.gov



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From: [b4,b8]
Sent: Wednesday, June 07, 2023 10:29 AM
To: Clark, Perissa Ali <PaliClark@FDIC.gov>
Cc: [b4,b8] [b8]
Subject: [EXTERNAL MESSAGE] Re: [b4,b8] SECURE MAIL

CAUTION External email. Do not click links or open attachments unless you recognize the sender and know the content is safe.

Apologies, I should have added that the accounts for [b4,b8] have been closed.

[b4,b8]

From: [b4,b8]
Sent: Wednesday, June 7, 2023 1:01:39 PM
To: Clark, Perissa Ali <PaliClark@FDIC.gov>
Cc: [b4,b8] [b4,b8]
Subject: RE: [b4,b8] [b4,b8] SECURE MAIL

Hello All,

Please take this as confirmation that within the last 30 minutes all [b4,b8] funds were exited by us from

[b4,b8]

They were all sent in one wire to [b4,b8] at the instructions of [b4,b8]

[b4,b8]

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b4,b8

From: **b4,b8**
To: **b8**
Cc: **b4,b8**
Subject: [EXTERNAL MESSAGE] Re: Follow-up Question: Crypto related product "Secure Email"
Date: Monday, September 11, 2023 9:45:37 AM

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Dear **b8**
There has been no change to our strategy regarding Crypto.
Thank you for checking in. Have a great week.
b4,b8

b4,b8
CEO

b4,b8

Sent from my iPhone.

From: **b8**
Sent: Monday, September 11, 2023 9:29 AM
To: **b4,b8**
Cc: **b4,b8**
Subject: Follow-up Question: Crypto related product "Secure Email"

[External Email: Caution]

This message was sent securely using Zix[®]

CONTROLLED//FDIC BUSINESS

Good Morning President **b4,b8**

I hope you are having a great week. I am reaching out to my banks to determine if there have been any strategy changes related to crypto related products. As discussed at the last exam, your **"bank has no immediate plans to implement any crypto related products or services"**. I was following up to verify if there have been any changes in the bank's strategy related to any crypto related products. If not, please confirm the previous statement. If the strategy has changed, please provide me with an update to your new plan. If you can respond by 9/13/23, that would be helpful. Please let me know if you have any questions.

REL0000042507

Best Regards,

b8

b8

Case Manager- Risk Management Supervision

Federal Deposit Insurance Corporation

Office

b6,b8


Cell:

b8

FDIC

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**FDIC****Federal Deposit Insurance Corporation**25 Jessie Street at Ecker Square, Suite 2300 San
Francisco, California 94105Division of Risk Management Supervision
San Francisco Regional Office
(415) 546-0160

October 13, 2023

Board of Directors

b4,b8

Subject: Notification of Engagement in Crypto-Related Activities

Dear Members of the Board:

The FDIC acknowledges the notification provided by **b4,b8** (the Bank) on March 24, 2023, regarding the Bank's intention to provide deposit accounts and related services to an existing customer's business that operates within the crypto-asset space. The notification was provided pursuant 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.

On April 26, 2023, FDIC Case Manager **b8** sent an email to President **b4,b8** **b4,b8** requesting additional information to better understand the nature of the proposed activity. In a follow up telephone conversation on August 2, 2023, with Case Manager **b8** President **b4,b8** communicated that the Bank is no longer pursuing the proposed activity. President **b4,b8** also communicated that he will notify the FDIC if the Bank considers engaging in any crypto-related activity going forward.

If you have any questions, please contact Risk Management Supervision (RMS) Acting Assistant Regional Director Justin Shaffer at **b6** RMS Case Manager **b8** at **b6,b8** Depositor and Consumer Protection (DCP) Assistant Regional Director Susan Pinette at **b6** or DCP Acting Review Examiner **b8** at **b6,b8**

Sincerely,

/s/ Louis C.C.Cheng

Louis C.C. Cheng
RMS Acting Deputy Regional Director

/s/ Dana Crutchfield

Dana Crutchfield
DCP Deputy Regional Director

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REL0000042508

b8

From: **b8**
Sent: Monday, November 13, 2023 4:59 PM
To: FDIC San Francisco Regional Office
Cc: **b8**
Subject: Please RADD - Interim Bank Contact - **b4,b8**

Categories: Gold

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Include Email (Y/N): Y
Institution Name: **b4,b8**
City: **b4,b8**
State: **b4,b8**
Business Line: RM
Folder: Correspondence
Source: FO
Doc Name: Interim Bank Contact
Description: Interim Bank Contact - Call with CEO **b4,b8** on 10/30/23

On 10/30/23, FS **b8** spoke with CEO **b4,b8** of **b4,b8**. Topics included the bank's current condition, industry hot topics, and FDIC supervision. Highlights included the following:

b4,b8

- Management opted not to move forward with the crypto relationship; the customer found another bank. CEO **b4,b8** noted that Case Manager **b8** was very responsive to his questions,

although he had not received feedback from the Washington Office at the time management decided not to move forward.

b4,b8

b8

Field Supervisor, Division of Risk Management Supervision
Federal Deposit Insurance Corporation

b8

FDIC

b8

b8

From: [b4,b8]
Sent: Tuesday, April 16, 2024 1:36 PM
To: [b8]
Cc: [b8]
Subject: [EXTERNAL MESSAGE] RE: [b4,b8] - FIL 16-2022 Relating to Crypto Related Activity

CAUTION: External email. Do not click links or open attachments unless you recognize the sender and know the content is safe.

Hi [b8] and good afternoon.

Please see our responses below in red. If you have any questions or need any additional information, feel free to give me a call.

Thanks,

[b4,b8]

b4,b8

From: [b8]
Sent: Monday, April 15, 2024 7:33 AM
To: [b4,b8]
Subject: [b4,b8] FIL 16-2022 Relating to Crypto Related Activity

NONPUBLIC//FDIC BUSINESS

[b4,b8]

Good morning. I am following up on the crypto-related activities of [b4,b8] In correspondence from October of last year, you indicated that [b4,b8] bank engaged in the following crypto-related activity:

DDA accounts that have crypto pass through from time to time (not identified as administrators/exchangers) – Crypto activity still represents less than 1% of total activity.

- Roughly 250 transactions per month (less than 1% of total activity)
- Primarily through: **b4,b8**

Single commercial loan to client in **b4,b8** No crypto taken as collateral – No changes to the below loan and no new loans as of 4/16/24.

- **b4,b8**
- Secured by business assets of **b4,b8**
- Physical Address of facility:
b4,b8

Since October of last year, has there been any change in the institution's crypto-related activities?

Thanks,

b8

Case Manager
Federal Deposit Insurance Corporation
Atlanta, GA Regional Office
Cell: **b6,b8**

NONPUBLIC//FDIC INTERNAL ONLY

From: [b8]
Sent: Wednesday, June 7, 2023 12:10 PM
To: [b8]
Cc: [b8]
Subject: [b8]

NONPUBLIC//FDIC INTERNAL ONLY

On quick follow-up if it ever comes up. [b8] reached out to [b4,b8] today to find out where that \$20 million wire transfer from [b4,b8] went. Apparently the state is still wrapping up the [b4,b8] exam that has been going on for months, and she was curious about it when she read my email from yesterday. It went to another [b4,b8] account at [b4,b8] so it just moved from one bank to another. Not sure why [b4,b8] decided to move it from [b4,b8] to [b4,b8]

[b8]
[b8]
[b8]
Federal Deposit Insurance Corporation
[fdic.gov](https://www.fdic.gov)

From: [b8]
Sent: Tuesday, June 6, 2023 3:01 PM
To: [b8] [b8]
[b8] Rhodes, Debra L. <DRhodes@FDIC.gov>
[b8]
Cc: [b8] [b8]
Subject: RE: [b8]

NONPUBLIC//FDIC INTERNAL ONLY

b4,b8

I called and spoke with [b4,b8] President/CEO [b4,b8] and Director of Operations [b4,b8] just moments ago to inquire about the bank's exposure to this and determine if any unusual activity has occurred.

They reported that [b4,b8] wired out [b4,b8] at [b4,b8] on [b4,b8] after providing about 24 hours notice to the bank of its intent to move it out. [b4,b8] held plenty of cash reserves against that large deposit, so no issues concerning the bank's liquidity. [b4,b8] continues to have the two accounts with [b4,b8] but the holding account is significantly smaller after this large wire out from May 26th. As of today, [b4,b8] has [b4,b8] in its operation/clearing account, after receiving a [b4,b8] in today, which bank management

described as normal business – nothing unusual about it. [b4, b8] remaining in its holding account as of today (total between both accounts is [b4, b8] as of today).

Bank management reported that after its fairly recent inquiry to the FDIC about accepting and holding more [b4, b8] deposits related to [b4, b8] it decided against it, and has not opened any additional accounts. The bank has no other exposure to [b4, b8]

President [b4, b8] For additional monitoring later this week, we can contact Director of Operations [b4, b8] directly on her cell phone at [b4, b8]

[b8]

Federal Deposit Insurance Corporation
fdic.gov

From: [b8]
Sent: Tuesday, June 6, 2023 11:34 AM
To: [b8] Rhodes,
 Debra L. <DRrhodes@FDIC.gov> [b8] [b8]
Cc: [b8]
Subject: FW: [b8]

NONPUBLIC//FDIC INTERNAL ONLY

Hey everyone,

Please check in with your banks/PFRs with ties to [b4, b8], or let me know if you hear anything about unusual activity please. [b4, b8] was named below, but others that might have ties (directly or indirectly) are [b4, b8] and [b4, b8]. If nothing to report, please email me directly to let me know that too.

Thanks,
 [b8]

From: Worthing, Paul P. <PWorthing@FDIC.gov>
Sent: Tuesday, June 6, 2023 11:23 AM
To: RMS SF RO ARDs <RMSSFROARDs@FDIC.gov> [b8] Ogren,
 Michelle (Shelly) <MOgren@FDIC.gov>

NONPUBLIC//FDIC INTERNAL ONLY

Cc: Moe, Kathy L <KMoe@FDIC.gov>

Subject: Fwd: **b8**

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ARDs - please have case managers check in with banks that have connections with either **b4,b8** **b4,b8** over the next couple of days (should be few if any). Check in would be to see if the bank has observed and unusual activities (e.g. deposit activity) **b4,b8** If other agency supervised, the case manger should plan to touch base as part of routine communications with the other agency contact. (i.e. **b4,b8**)

b8 is traveling to **b8** meeting so his availability will be limited to assist with these calls over the next couple of days if needed. Just letting you know.

From: **b4,b8**

Sent: Tuesday, June 6, 2023 11:56 AM

To: RDs <RDsDC@FDIC.gov>; RMS DRDs <RMSDRDS@FDIC.gov>

Cc: **b4,b8**; Colohan, Patricia A. <PColohan@FDIC.gov>; Eberley, Doreen R. <DEberley@FDIC.gov>; Muraywid, Sumaya A. <SMuraywid@FDIC.gov>

Subject: **b8**

NONPUBLIC//FDIC INTERNAL ONLY

b4,b8

DO

REL0000042514

b8

b8

b8

From: [REDACTED] b4,b8
Sent: Friday, June 21, 2024 10:44 AM
To: [REDACTED] b8
Cc: [REDACTED] b4,b8
Subject: [EXTERNAL MESSAGE] RE: [REDACTED] b4,b8 - FIL 16-2022 Relating to Crypto Related Activity

CAUTION: External email. Do not click links or open attachments unless you recognize the sender and know the content is safe.

[REDACTED] b8 It appears my reply on 6/10 did not go through. May be an issue because I sent though my phone. No changes since last inquiry. Thanks and let us know if you need anything else. Have a great weekend!

[REDACTED] b4,b8

Re: [REDACTED] b4,b8 FIL 16-2022 Relating to Crypto Related Activity

b8

To: [REDACTED] b4,b8
[REDACTED] b8

No changes since we last reported.

Thanks,

[REDACTED] b4,b8
Sent from my iPhone

On Jun 10, 2024, at 2:40 PM, [REDACTED] b8 wrote:

CONTROLLED//FDIC BUSINESS

[REDACTED] b4,b8

Good afternoon. I am following up on the crypto-related activities of [REDACTED] b4,b8 in correspondence from April of this year, you indicated

ODA accounts that have crypto pass through from time to time (not identified as administrators/exchangers)

1. Roughly 250 transactions per month (less than 1% of total activity)
2. Primarily through: [REDACTED] b4,b8

b4,b8

[REDACTED] b4,b8
Associate Managing Director, Compliance Officer, CRCM

b4,b8

b4,b8

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From: **b4,b8** >
Sent: Friday, June 21, 2024 9:41 AM
To: **b4,b8**
Cc: **b4,b8**
Subject: FW: **b4,b8** FIL 16-2022 Relating to Crypto Related Activity

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b4,b8

I just wanted to follow up on my previous emails inquiring into **b4,b8** Crypto-Related Activity. Since April of this year, has there been any change to the bank's crypto-related activity as presented below?

Thanks,

b8

Case Manager
Federal Deposit Insurance Corporation
Atlanta, GA Regional Office
Cell: **b6,b8**

From: **b8**
Sent: Monday, June 17, 2024 11:17 AM
To: **b4,b8**
Subject: FW: **b4,b8** FIL 16-2022 Relating to Crypto Related Activity

CONTROLLED//FDIC BUSINESS

b4,b8

I just wanted to follow up on this email from last week inquiring into **b4,b8** Crypto-Related Activity. Since April of this year, has there been any change to the bank's activity as presented below?

Thanks,

b8

Case Manager
Federal Deposit Insurance Corporation
Atlanta, GA Regional Office
Cell: **b6,b8**

From: **b8**
Sent: Monday, June 10, 2024 2:40 PM
To: **b4,b8**
Subject: **b4,b8** FIL 16-2022 Relating to Crypto Related Activity

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b4,b8

Good afternoon. I am following up on the crypto-related activities of **b4,b8** In correspondence from April of this year, you indicated that **b4,b8** bank engaged in the following crypto-related activity:

DDA accounts that have crypto pass through from time to time (not identified as administrators/exchangers)

- Roughly 250 transactions per month (less than 1% of total activity)
- Primarily through: **b4,b8**

Single commercial loan to client in **b4,b8** No crypto taken as collateral

•
•
•
•

b4,b8

Since April of this year, has there been any change in the institution's crypto-related activities?

Thanks,

b8

Case Manager
Federal Deposit Insurance Corporation
Atlanta, GA Regional Office
Cell: **b6,b8**



Federal Deposit Insurance Corporation

b8

Division of Risk Management Supervision

January 29, 2024

MEMORANDUM TO: Correspondence File

THROUGH:

b8

Assistant Regional Director

FROM:

b8

Case Manager

SUBJECT:

b4,b8

Meeting with b4,b8 Management to Discuss CIP Procedures

Regional Office (RO) personnel hosted b4,b8 management in the b8 on January 24, 2024, to b4,b8 and liquidity risk management – specific to industry deposit concentration. ARD b8 Regional Counsel b8 CM-SA b8 and CM b8 represented the FDIC. CEO b4,b8 and EVP-CRO b4,b8 represented b4,b8

CEO b4,b8 opened the meeting by acknowledging the receipt the FDIC's Visitation Letter dated December 29, 2023. She stated that management reviewed the letter and prepared a response for the Board to review at the upcoming January Board Meeting. CEO b4,b8 also confirmed that the bank ceased originating bitcoin secured loans b4,b8 b4,b8. The Board plans to review and approve the visitation response letter this week, and EVP b4,b8 will forward the response to the RO following the Board meeting. EVP b4,b8 also committed to getting the year-end quarterly update on EFX by mid-February.

EVP b4,b8 turned the conversation to CIP collection procedures. She stated that it is the bank's practice to collect the last four digits of the customer's TIN through its third party partnerships and the bank or its partners obtain the remaining five digits through other channels (e.g., credit reports) during the remainder of the CIP process. She confirmed that all nine digits are obtained prior to account opening for all customers. She stated that management felt the OCC's recent exemptive relief grant supported this practice and maintained a charter-neutral playing field. CEO b4,b8 added that the types of consumer lending offered through third party partnerships are akin to consumer credit cards, which are also exempt from the full nine-digit collection requirement. Both claimed that neither the FRB nor the OCC are actively enforcing this expectation, although no specific examples were provided during the meeting. CEO b4,b8 also noted that requiring all nine digits of the TIN transmitted over electronic devices opened the bank and its customers up to PII risks if the transmission was compromised. She added that she would never provide her entire TIN through remote electronic devices. ARD b8 acknowledged management's concerns and points; however, she explained that the current rule requires the bank to obtain all nine digits directly from the customer prior to account opening. She stated that there is a process for individual banks to seek exemption relief, if management decided to pursue that path. Regional Counsel b8 added that the OCC's exemptive relief was limited to the specific operating subsidiary of the requesting national bank and not considered an industry-wide relief to all national banks. b4,b8

procedures and rationale for obtaining only the last four digits from customers for their partnership programs (See RADD Correspondence file dated 1/25/24 for a copy of the letter). She reported that FinCEN never responded to their letter, which management drafted as a negative confirmation letter (i.e., no response indicated no objection). EVP b4,b8 offered to provide a copy of the letter to the RO. ARD b8 responded that FinCEN's lack of response was not an indication of non-objection and that management needed to adhere to the requirements without a specific exemption from FinCEN. CEO b4,b8 committed to communicating with FinCEN again on the issue in

b4,b8

Next, ARD **b8** discussed the bank's liquidity position and risk management expectations based on the significant volume of digital asset based deposits on the balance sheet. **b4,b8**

ARD **b8** discussed the importance of Board oversight, policy and risk limit development and approvals, and regular monitoring and reporting of deposit concentrations to ensure appropriate liquidity risk management. CEO **b4,b8** responded that the Board is aware of the volume of digital asset based deposits accepted at the bank, and that monthly Board report track the volume of deposits. Management places the deposits in cash at the FRB, IBBBs, and through the **b4,b8** network to expand FDIC deposit insurance coverage for the clients. EVP **b4,b8** stated Board minutes will be expanded to ensure appropriate discussions, approvals, and limits are recorded.

The meeting concluded with EVP **b4,b8** recapping the bank's commitment to expand Board meeting minutes, provide a copy of the **b4,b8** (received at the RO on January 25, 2024) and the Board's response to the Visitation, and upload the quarterly update.

b4,b8

March 19 2024

Ms. Paul P. Worthing
Regional Director
Federal Deposit Insurance Corporation
25 Jessie Street, Suite 2300
San Francisco, A 94105

VIA EMAIL: SFMailRoom@FDIC.gov

RE: Supplement to **b4,b8** ("Bank") Response to Request for Additional Information Dated August 18, 2023

Dear Mr. Worthing,

I am writing to you today to supplement the response sent by the Bank on November 16, 2023, concerning its relationship with **b4,b8**. The Bank's November 2023 response contained answers to 42 questions from the FDIC requesting additional information on August 18, 2023. Previously, the Bank responded to questions from the FDIC on January 5, 2023, which related to questions asked by the FDIC on November 21, 2022, following the Bank's original notification to the FDIC on August 10, 2022. We hope this detailed timeline underscores our eagerness to cooperate and keep you well-informed.

The Bank wishes to underscore some of the key points in Vice Chairman Travis Hill's remarks on March 11, 2024, entitled, "Banking's Next Chapter? Remarks on Tokenization and Other Issues." These points directly impact the comprehensive assessment the FDIC is conducting regarding the Bank's use of distributed ledger technology. We believe the FDIC's Vice Chairman's policy direction articulated in his remarks concerning the use of distributed ledger technologies that do not involve cryptocurrency could be of significant value to your team as they continue to evaluate our use of this technology.

During his remarks, Mr. Hill candidly expressed that:

there are significant downsides to the FDIC's current approach, which has contributed to a general public perception that the FDIC is closed for business if institutions are interested in anything related to blockchain or distributed ledger technology. The confidential nature of the existing process means there is little public information on what types of activities the FDIC might be open to, if any. I have heard of some cases in which requests submitted by institutions have gone unanswered for long periods of time, while other institutions have spent months responding to a long stream of information requests, diverting attention away from developing new technologies and systems. While the largest banks are able to hire consultants and staff in Washington, D.C. to read the tea leaves to discern what might be approved, the message being heard by the vast majority of the industry could be interpreted as *don't bother trying*.

The FDIC Vice Chairman went on to reiterate that it is of utmost importance for regulators to provide clarity and timely feedback to distinguish between 'crypto' and the use of blockchain by banks. He said:

We should certainly be humble when it comes to making any sorts of predictions about what the future financial system will look like, but as financial institutions and developers

b4,b8

around the world continue to develop blockchain and distributed ledger technologies, a poor regulatory approach to these issues presents substantial opportunity costs for bank customers and the U.S. economy, discourages institutions from investing in the future, and cedes influence to non-U.S. jurisdictions.

As financial institutions worldwide continue to develop blockchain and distributed ledger technologies, Vice Chairman Hill stated that a poor regulatory approach presents significant opportunity costs for the US economy. Specifically, Mr. Hill stated the following:

the agencies need to distinguish between “crypto” and the use by banks of blockchain and distributed ledger technologies. I do not think banks interested in the latter, insofar as it simply represents a new way of recording ownership and transferring value, should need to go through the same gauntlet as banks interested in crypto.

As stated in the Bank’s various responses, the **b4,b8** blockchain will be used as a ‘distributed ledger technology,’ not as a ‘crypto’ currency.

Once you and your team have had an opportunity to review and digest this information and our prior submissions, we request that a meeting be scheduled so that we can answer any follow-up questions and ensure that all parties are on the same page concerning **b4,b8** current activities and its plans for potential future activities.

Sincerely,

b4,b8

cc:

b4,b8

b4,b8



Federal Deposit Insurance Corporation

b8

Division of Risk Management Supervision

April 2, 2024

MEMORANDUM TO: Correspondence File

THROUGH:

b8

Assistant Regional Director

FROM:

b8

Case Manager

SUBJECT:

b4,b8

Washington Office Conference Call RE: Unchained and CIP Requirements

Regional Office (RO) personnel hosted participated in a conference call with Washington Office (WO) personnel via MS Teams April 1, 2024. Section Chiefs (Chief) Sumaya Muraywid, Debra Novak, Kimberly Schmidt, and Sandra Macias represented the WO. ARDs [b8] and [b8] CM [b8] RE [b8] [b8] and CM-SA [b8] represented the RO. The call centered on two issues related to [b4,b8] (1) closing out the crypto-related SR regarding underwriting expectations for third-party lending relationships and (2) CIP requirements regarding collection of the customer's TIN prior to account opening.

b4,b8

Chief Muraywid inquired about the Region's planned follow up to [b4,b8] response to the crypto-related SR letter mailed to the bank on December 29, 2023. She referenced the guidance in the RD Memo 2022-014-RMS that requires the FDIC to provide a closeout letter to specify that the FDIC's review of the crypto-related activity is complete. She noted that the bank's response to the SR regarding underwriting did not technically align with Appendix A to Part 364 "Interagency Guidelines Establishing Safety and Soundness". She recommended that the Region's closeout letter included language highlighting the requirements established in Appendix A to Part 364 regarding management's assessment of the borrower's ability to repay.

The meeting concluded with Chief Muraywid committing to provide the Region with sample closeout letters to provide [b4,b8] regarding the crypto-related SR. ARD Hoskins stated that the Region would include clarifying comments regarding the expectations related to Appendix A of Part 364 within the closeout letter to the bank.

b4,b8

Correspondence; WO; Miscellaneous; 5/29/24

Communication with WO RE: b4,b8
deposits and request list for additional information

From: Muraywid, Sumaya A.
To: b8
Cc: Hoskins, Hilary L.; Macias, Sandra; Schmitt, Kimberly A.
Subject: RE: b4,b8 and Request List
Date: Wednesday, May 29, 2024 8:52:12 AM
Attachments: b4,b8 Request List 5-3-24.docx
Request Letter (sm).docx

Refer to final letter
mailed 5/29/24

CONTROLLED//FDIC INTERNAL ONLY

b8 - the senior deputy directors reviewed and had no edits. I did have one edit to the cover letter to add part 309, consistent with other letters sent. Please let us know when the responses are received, so we can coordinate. Thanks.

From: b8
Sent: Thursday, May 23, 2024 8:50 AM
To: Muraywid, Sumaya A. <SMuraywid@FDIC.gov>
Cc: Hoskins, Hilary L. <HHoskins@FDIC.gov>; Macias, Sandra <SMacias@FDIC.gov>; Schmitt, Kimberly A. <KSchmitt@FDIC.gov>
Subject: RE: b4,b8 Letter and Request List

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Yes. DCP RE b8 ARD Gowlovech, and DRD Ball all reviewed and opined on the letter and request list.

Regards,

b8

Case Manager
Risk Management Supervision

Email b8

b6,b8

From: Muraywid, Sumaya A. <SMuraywid@FDIC.gov>
Sent: Thursday, May 23, 2024 7:49 AM
To: b8
Cc: Hoskins, Hilary L. <HHoskins@FDIC.gov>; Macias, Sandra <SMacias@FDIC.gov>; Schmitt, Kimberly A. <KSchmitt@FDIC.gov>
Subject: RE: b4,b8 Letter and Request List

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REL0000042521

Thanks **b8** Just confirming, has DCP staff and management reviewed as well? thanks.

From: **b8**

Sent: Thursday, May 23, 2024 8:40 AM

To: Muraywid, Sumaya A. <SMuraywid@FDIC.gov>

Cc: Hoskins, Hilary L. <HHoskins@FDIC.gov> **b8**

Subject: **b4,b8** Letter and Request List

CONTROLLED//FDIC INTERNAL ONLY

Good morning Sumaya,

I attached the letter and request lists for **b4,b8** for your review. Both documents have been reviewed in the Region through RD Kaemingk. We may need to adjust the requested response date when sending the documents to **b4,b8** but everything else should be ready from the Region's perspective. Please let me know if you have any comments or suggestions regarding the documents. Thank you.

Regards,

b8

Case Manager

Risk Management Supervision

Email **b8**

b6,b8

From: Muraywid, Sumaya A.
To: Hoskins, Hilary L.; [b8]; Schmitt, Kimberly A.; Macias, Sandra; [b8] Gowlovech, Edward J.
Cc: [b8]
Subject: RE: [b4,b8] Crypto Notification
Date: Friday, May 3, 2024 4:57:39 PM
Attachments: Draft Request List; [b4,b8] 5-3-24.docx

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All – here are items we suggest for the request list. Please let us know what you think.

-----Original Appointment-----

From: Muraywid, Sumaya A.
Sent: Wednesday, April 17, 2024 11:21 AM
To: Muraywid, Sumaya A.; Hoskins, Hilary L.; [b8] Schmitt, Kimberly A.; Macias, Sandra; [b8] Gowlovech, Edward J.
Cc: [b8]
Subject: [b4,b8] Crypto Notification
When: Friday, May 3, 2024 2:00 PM-2:30 PM (UTC-05:00) Eastern Time (US & Canada).
Where: Microsoft Teams Meeting

To touch base on the bank's notification and crypto related activities.

Microsoft Teams [Need help?](#)

[Join the meeting now](#)

b7(E)

Dial-in by phone

b7(E),b8

For organizers: [Meeting options](#) | [Reset dial-in PIN](#)

Please provide the below items for the all crypto-related deposit accounts at the institution:

- Provide analysis on crypto-related deposit volatility and how such deposits are considered in liquidity risk management functions including: concentration risk limits, key risk indicators outlining the minimum level of highly liquid assets held against crypto-related deposits, and any other supporting metrics to assist with understanding how management assesses and manages the overall risk related to crypto-related deposit accounts. Include related board and committee reporting.
- Provide a list of all accounts, account titling, month-end deposit levels for the last 12 months, monthly transaction volumes, and account purpose.
- Reflect which deposit accounts crypto-related firms hold funds on behalf of crypto-firms customers or function as reserve assets for a stablecoin. For such accounts:
 - *Provide copies of any account agreements or contracts with the crypto-related firms.*
 - *Provide the most recent copies of any account agreements, disclosures, or advertisements related to accounts provided by or through the Bank and crypto-related firms.*
 - *Provide policies and procedures that govern the Bank's process for reviewing third-party account disclosures, marketing materials, and advertisements that use the bank's name or branding or related to deposit insurance.*
 - *Describe the process used by the Bank, crypto firm, or any other third-party to maintain records, ledgers, or reconciliations, or other evidence reflecting the balance of user funds held at the Bank that are subject to the FDIC pass through insurance disclosure. This would include any documentation of the policies and procedures relating to the flow of funds for these accounts.*
 - *Describe any role the bank has in verifying stablecoin reserves, if any are held, to a crypto firm, their customers, or their customers' customers.*
 - *Provide documentation of any internal or external analysis, including legal opinions, conducted to determine whether the crypto firm disclosures and any related third party's account agreements are accurate as it relates to the availability of FDIC pass through deposit insurance through the Bank.*

Do we want to add CDD/beneficial ownership documentation or any other bsa/aml related documentation (such as transaction monitoring information)?

Please provide the below items for the proposed b4,b8 relationship and any other similar relationships (add language to reflect to provide drafts or can provide later if documents are not ready yet, but would be useful if bank can provide updated timeline):

- Risk assessments
- Due diligence
- Contracts
- Permissibility analysis
- Implementation plan. Please include volumes of activity (including projected and actual (if any) of # of customers, deposit volumes, and transaction volumes), income projections used to determine whether the products are financially feasible, and any other analysis performed to support launching the products.
- AML/CFT

- Settings (i.e., scorecard) for automated systems or programs used for the Customer Identification Program (CIP), OFAC sanctions monitoring, and suspicious activity monitoring.
 - Description of process/controls for revising settings.
- Due diligence of system/program and support for settings selected, if automated systems or programs are used, for CIP, OFAC, and suspicious activity monitoring.
- Fraud
 - Description of fraud detection systems, mechanisms, and processes.
 - Description of fraud loss mitigation processes.
- Consumer
 - Description of any fees that will be charged to consumers related to the activity, and how they will be calculated.
 - Consumer agreements, disclosures, or other terms and conditions related to the activities provided by or through the bank and by third parties (draft or proposed)
 - Marketing materials, press releases, internal scripts, educational materials, and any other publicly distributed information related to the activity (draft or proposed).
 - Policies and procedures that will govern the crypto-related activities, including those related to consumer compliance and complaint resolution.
 - Internal training materials related to the activities.



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

b4,b8

Division of Depositor and Consumer Protection
Division of Risk Management Supervision
Kansas City Regional Office
(816) 234-8000

May 29, 2024

b4,b8

Chief Legal & Risk Officer

b4,b8

Subject: Request for Information Regarding Notification of Engagement in Crypto-Related Activities

Dear **b4,b8**

On March 28, 2024, **b4,b8** (the Bank) notified the FDIC regarding the Bank's potential partnership with **b4,b8** to provide a deposit account option for the uninvested funds of **b4,b8** customers. Each customer has the option to receive **b4,b8** in the form of U.S. dollars through the Bank, or to acquire additional Bitcoin through **b4,b8**. The Bank provided the notification pursuant to Financial Institution Letter (FIL), FIL-16-2022 Notification of Engaging in Crypto-Related Activities.

The FDIC requests a written response addressing the items detailed in the attachment to this letter. The request for additional information includes items related to the proposed partnership with **b4,b8** as well as the Bank's digital asset related deposits. This information will assist the FDIC in assessing the safety and soundness, consumer protection, and financial stability implications related to the Bank's digital asset activities. Please provide draft documents for any requested items that remain in process, and an updated timeline for launching the potential partnership with **b4,b8**.

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). **Please upload the available requested items to FDICconnect-EFX by June 19, 2024.** If you have any questions, please contact Case Manager **b8** or Review Examiner **b6,b8**. Written correspondence should be addressed to the Kansas City Regional Office and sent as a PDF document through the FDIC's Secure Email portal (securemail.fdic.gov) using the following e-mail address: KCMailroom@FDIC.gov.

Sincerely,

Jessica A. Kaemingk
Regional Director

Attachment

cc: **b8**

REL0000042522

b4,b8

Please provide the below items for the proposed **b4,b8** relationship and any other similar relationships:

- Risk assessments
- Due diligence
- Contracts
- Permissibility analysis, including any legal opinions
- Implementation plan. Please include volumes of activity (including projected and actual (if any) of # of customers, deposit volumes, and transaction volumes), income projections used to determine whether the products are financially feasible, and any other analysis performed to support launching the products.
- AML/CFT
 - Settings (i.e., scorecard) for automated systems or programs used for the Customer Identification Program (CIP), OFAC sanctions monitoring, and suspicious activity monitoring.
 - Description of process/controls for revising settings.
 - Due diligence of system/program and support for settings selected, if automated systems or programs are used, for CIP, OFAC, and suspicious activity monitoring.
- Fraud
 - Description of fraud detection systems, mechanisms, and processes.
 - Description of fraud loss mitigation processes.
- Consumer Protection
 - Description of any fees that will be charged to consumers related to the activity, and how they will be calculated.
 - Consumer agreements, disclosures, or other terms and conditions related to the activities provided by or through the bank and by third parties (draft or proposed)
 - Marketing materials, press releases, internal scripts, educational materials, and any other publicly distributed information related to the activity (draft or proposed).
 - Policies and procedures that will govern the crypto-related activities, including those related to consumer compliance and complaint resolution.
 - Internal training materials related to the activities.

b4,b8**Please provide the below items for all digital asset related deposit accounts at the Bank:**

- Provide analysis on digital asset related deposit volatility and how such deposits are considered in liquidity risk management functions including:
 - concentration risk limits;
 - key risk indicators outlining the minimum level of highly liquid assets held against crypto-related deposits; and
 - any other supporting metrics to assist with understanding how management assesses and manages the overall risk related to digital asset related deposit accounts.
- Include related board and committee reporting.
- Provide a list of all accounts, account titling, month-end deposit levels for the last 12 months, monthly transaction volumes, and account purpose.
- Reflect which digital asset related deposit accounts hold funds on behalf of the digital asset firms' customers or function as reserve assets for a stablecoin, if any. For such accounts:
 - Provide copies of any account agreements or contracts with the digital asset related firms.
 - Provide the most recent copies of any account agreements, disclosures, or advertisements related to accounts provided by or through the Bank and digital asset related firms.
 - Provide policies and procedures that govern the Bank's process for reviewing third-party account disclosures, marketing materials, and advertisements that use the bank's name or branding or related to deposit insurance.
 - Describe the process used by the Bank, digital asset firm, or any other third-party to maintain records, ledgers, or reconciliations, or other evidence reflecting the balance of user funds held at the Bank that are subject to the FDIC pass through insurance disclosure. This would include any documentation of the policies and procedures relating to the flow of funds for these accounts.
 - Describe any role the bank has in verifying stablecoin reserves, if any are held, to a digital asset firm, their customers, or their customers' customers.
- Provide documentation of any internal or external analysis, including legal opinions, conducted to determine whether the digital asset firm disclosures and any related third party's account agreements are accurate as it relates to the availability of FDIC pass through deposit insurance.

From: b4,b8
To: b8 b4,b8
Cc: b4,b8
Subject: [EXTERNAL MESSAGE] RE: FDIC Follow-up: Plans for Crypto Activities
Date: Thursday, June 6, 2024 4:53:09 PM
Attachments: image001.png
image002.png

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Good afternoon b8

Thanks for your email. You are correct that the Bank did dedicate some time to investigating various types of crypto products and services – I believe that was a year or two ago now. Since that time, the Bank has decided not to take any action on implementing any crypto related products or services. In the event we consider this in the future, we will be sure to let you know. Thanks,

b4,b8

b4,b8
b4,b8 General Counsel

b4,b8

b4,b8

From: b8
Sent: Thursday, June 6, 2024 1:07 PM
To: b4,b8
Cc: b8 b4,b8
Subject: FDIC Follow-up: Plans for Crypto Activities

[External Email: Caution]

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CONTROLLED//FDIC BUSINESS

Good afternoon CEO **b4,b8**

My name is **b8** and I am with the FDIC. I am assisting FDIC Case Manager **b8** with her various duties. I am reaching out to follow up on the topic of crypto related products and services. Previous examinations and correspondence indicate that there was some interest and possible intent (but no immediate plans) to implement. Are there any changes in the bank's strategy as it relates to crypto products/services? If so, could you please provide some narrative around the decision, as well as the plan? Regardless, as a reminder, please contact the Atlanta Regional Office before engaging in this activity, per the guidance in FIL 16-2022.

Thank you,

b8

Financial Institution Examiner - RMS

Federal Deposit Insurance Corporation | Atlanta, Georgia

Cell: **b6,b8**

This message was secured by Zix®.

b4,b8

This message was secured by Zix®.

REL0000042523

From: [b8]
Sent: Tuesday, August 13, 2024 8:28 AM
To: FDIC Kansas City Regional Office
Subject: RADD [b4,b8]

CONTROLLED//FDIC INTERNAL ONLY

Please put this in RADD as note to file for followup at the next compliance examination.

[b8]
Review Examiner
Kansas City Region
Cell: [b6,b8]

From: [b8]
Sent: Monday, August 12, 2024 4:16 PM
To: [b8]
Cc: Gowlovech, Edward J. <EGowlovech@FDIC.gov>; [b8]; [b8]
M. [b8]
Subject: [b4,b8] - Consultation Has Been Closed

CONTROLLED//FDIC INTERNAL ONLY

[b8]

I agree that following up during the exam makes the most sense.

Would be able to send this email chain to RADD as a follow-up note to file to assist in recordkeeping for the review?

Thanks!

[b8]
Field Supervisor, DCP
Federal Deposit Insurance Corporation

[b6,b8] 103

[fdic.gov](https://www.fdic.gov)

FDIC

From: [b8]
Sent: Thursday, August 8, 2024 7:17 AM

To: [redacted] b8

[redacted] b8

Cc: Gowlovech, Edward J. <EGowlovech@FDIC.gov>

Subject: FW: [redacted] b4,b8 - Consultation Has Been Closed

CONTROLLED//FDIC INTERNAL ONLY

WO finally closed out the [redacted] b4,b8 crypto consult but it includes the following statement: . *If the region has determined that the bank has sufficiently corrected the deficiencies in the DCP ROE related to the crypto-activity review, please notify the appropriate WO points of contact in DCP. If this determination has not yet been made, please contact the WO points of contact in DCP when such an assessment is in progress.*

I suggest we add this as a follow up item to the upcoming exam – if no concerns are noted at the time, we can notify WO that the issues have been addressed. Everyone ok with that?

[redacted] b8

Review Examiner
Kansas City Region
Cell: [redacted] b6,b8

From: iBPMS Appian@fdic.gov <iBPMS Appian@fdic.gov> On Behalf Of FOCUS

Sent: Wednesday, August 7, 2024 7:09 PM

To: [redacted] b8 [redacted] b8 [redacted] b8

Gowlovech, Edward J. <EGowlovech@FDIC.gov>; Baker, Sherry L. <shbaker@FDIC.gov>; Ball, Jennifer A. <JBall@FDIC.gov>; [redacted] b8; Thurman, Jessica L. <jthurman@FDIC.gov>; Hollifield, Ardie <ahollifield@FDIC.gov>; Sagatelian, Marguerite <MSagatelian@FDIC.gov>; Ziegler, Cheryl L. <cziegler@FDIC.gov>; Popick, Stephen J. <spopick@FDIC.gov>; Cornell, Steven E. <scornell@FDIC.gov>; Johnston, Peter H. <PeJohnston@FDIC.gov>; [redacted] b8; Salamone, Frank C. <fsalamone@fdic.gov>;

Troutt-Towns, Amy T. <atroutttowns@fdic.gov>

Cc: Finnegan, G. Chris <GFinnegan@FDIC.gov>

Subject: FOCUS - [redacted] b4,b8 - Consultation Has Been Closed

CAUTION: External email. Do not click links or open attachments unless you recognize the sender and know the content is safe.

[redacted] b4,b8

[redacted] Consultation Has Been Closed

This is to notify you that the following consultation has been closed. Please log in to FOCUS to view details for the consultation.

b4,b8

Exam Date: ---

Consultation #: 8

Consultation Subject: General

Consultation Issue: New Product Review

Consultation Initiated: 6/22/2022

Consultation Closed: 8/7/2024

Consultation Action: No Concurrence Required

EIC: ---

Field Office Assigned: **b4,b8**

Review Examiner: **b8**

RO Lead: **b8**

WO Lead: **b8**

On May 10, 2022, **b4,b8** (the Bank) notified the FDIC of Bank's intent to offer crypto-asset products and services available in conjunction with the BaaS deposit accounts offered through an agreement with **b4,b8**

b4,b8 Subsequently, in **b4,b8** began offering all eligible users the ability to self-direct purchases and sales of crypto-assets (e.g. Bitcoin and Ethereum) using its mobile application, through an agreement with **b4,b8**

b4,b8 The notification was provided pursuant to Financial Institution Letter (FIL), FIL-16-2022, Notification of Engaging in Crypto-Related Activities. The FDIC requested additional information to assess the safety and soundness, consumer protection, and financial stability implications of such activities. The FDIC provided the bank with supervisory feedback in the DCP ROE for the examination dated September 14, 2022, which was mailed on April 10, 2023. The ROE included a Level 2 Medium Severity Violations of FDIC Part 328.102(a) for advertisements of deposit products provided by the bank alongside nondeposit crypto-asset products provided by **b4,b8** without a clear, conspicuous, and prominent disclaimer that the nondeposit product is not insured by the FDIC. The FDIC also provided additional supervisory feedback in the RMS ROE for the examination dated June 5, 2023, which was mailed on August 20, 2023. If the region has determined that the bank has sufficiently corrected the deficiencies in the DCP ROE related to the crypto-activity review, please notify the appropriate WO points of contact in DCP. If this determination has not yet been made, please contact the WO points of contact in DCP when such an assessment is in progress.

Note: This is an auto-generated email from FOCUS. Please do not reply to this email. Email FOCUS@fdic.gov if you have any questions concerning this notice.



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

September 12, 2024

b4,b8

President and CEO

b4,b8

Subject: Request for Information Regarding Notification of Engagement in Crypto-Related Activities

Dear CEO b4,b8

On May 7, 2024, b4,b8 (Bank) notified the FDIC of its planned engagement in crypto-related activities. The Bank provided the notification in response to Financial Institution Letter (FIL), FIL-16-2022 Notification of Engaging in Crypto-Related Activities. Your correspondence addressed the Bank's intention to provide deposit account services (Program Account) to a crypto asset exchange, to effect the exchange of crypto assets for US dollars, and vice versa. Your correspondence noted that the exchange, b4,b8 b4,b8 is a registered money services business (MSB) that enables users to purchase and sell crypto assets through its platform. The correspondence further notes, that in addition to the Program Account, the Bank would be opening a business account for b4,b8 in which b4,b8 is the owner and beneficiary of account funds. The correspondence summarizes various risks management has considered associated with the crypto-related activity.

On June 5, 2024, Case Manager b8 requested further information regarding the Bank's involvement in the above activity. On June 17, 2024, the Bank provided this information, including draft documents related to the program agreement with b4,b8

The FDIC requests a written response addressing the items detailed in the attachment to this letter. The request for additional information includes items related to the proposed partnership with b4,b8 as well as any other parties related to crypto-related activities. This information will assist the FDIC in assessing the safety and soundness, consumer protection, and financial stability implications related the Bank's proposed activities. Please provide draft documents for any requested items that remain in process, and an updated timeline for your arrangement with b4,b8

b4,b8

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). Please upload the available requested items to FDICconnect-EFX by DATE 2024. If you have any questions, please contact Assistant Regional Director Michael J. Mahon at **b6** or Review Examiner **b6,b8**

b6,b8 Written correspondence should be addressed to 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

Enclosures

cc:

b8

b4,b8

ATTACHMENT

Please provide the following items for the proposed crypto-related activity with **b4,b8** and any other similar relationships.

- Overview of the relationship, including the role of all third parties, the bank's role, and how customers interact with third parties and the bank as it relates to this product/service.
- Description of the digital wallet, the bank's role in managing the digital wallet, all third party roles in managing the wallet, and all information security analysis related to the wallet.
- Customer journey screens for the relationship, including the digital wallet.
- Description of the 'virtual ledger' and its purpose / function. Note: "virtual ledger" was referred to in the draft Addendum to the Program Account Agreement.
- Data flows.
- Funds flows, including a list, titling, and purpose of all accounts at the bank to manage the activity.
- Provide analysis on deposit volatility and how such deposits are considered in liquidity risk management functions including:
 - Concentration risk limits;
 - Key risk indicators outlining the minimum level of highly liquid assets held against crypto-related deposits; and
 - Any other supporting metrics to assist with understanding how management assesses and manages the overall risk related to digital asset related deposit accounts.
- Incentive compensation plans and agreements.
- All policies and procedures (including any drafts if not yet final) governing these activities.
- Committee minutes for all committees with oversight responsibilities related to this activity.
- Wire Transfer Policy.
- Enterprise-wide crypto and country risk assessments.
- Risk assessment for the activity and third parties.
- Feasibility and profitability analysis.
- All contracts related to the activity, including all schedules and amendments.
- Signature cards for all omnibus, For Benefit Of, or other deposit accounts used for **b4,b8** and any other similar relationship.
- Actual and projected volume of deposits, transaction activity, and users.
- Due diligence performed on **b4,b8** and any other third parties, including all supporting documentation.
- List approved states/countries for **b4,b8**-related activity. Provide implemented controls for prohibited states/countries.
- Documentation for quality control, testing, and on-going oversight of **b4,b8**. Include procedures for handling requests to **b4,b8** for information on specific transaction activity.
- Copies of all contracts associated with **b4,b8** relationship and any other third parties.
- Legal review of all contracts.
- Monthly deposit volumes and monthly payment volumes (by payment rail, e.g., wire and ACH) and associated return rates.
- Wire logs reflecting incoming and outgoing transactions since activity inception.
- Two most recent payment risk monitoring reports utilized by management and relevant

b4,b8

committees.AML/CFT

- Listing of software systems/programs that will be used for AML/CFT compliance.
 - System settings for automated systems or programs used for the Customer Identification Program (CIP), OFAC sanctions monitoring, and suspicious activity monitoring.
 - Description of process/controls for revising settings.
 - Due diligence of system/program and support for settings selected, if automated systems or programs are used, for CIP, OFAC, and suspicious activity monitoring.
 - Account agreements for this type of customer relationship.
 - Auditor access to the bank's suspicious activity monitoring system used to monitor b4,b8 transactions.
- **Fraud Prevention**
 - Description of fraud detection systems, mechanisms, and processes.
 - Description of fraud loss mitigation processes.
 - **Consumer Protection**
 - Description of any fees that will be charged to consumers related to the activity, and how they will be calculated.
 - Consumer agreements, disclosures, or other terms and conditions related to the activities provided by or through the bank and by third parties (draft or proposed).
 - Marketing materials, press releases, internal scripts, educational materials, and any other publicly distributed information related to the activity (draft or proposed).
 - Policies and procedures that will govern the crypto-related activities, including those related to consumer compliance and complaint resolution.
 - Internal training materials related to the activities.
 - Provide documentation of any internal or external analysis, including legal opinions, conducted to determine whether the digital asset firm disclosures and any related third party's account agreements are accurate as it relates to the availability of FDIC pass through deposit insurance.
 - **Application Programming Interface**
 - Please provide narrative detailing APIs calling critical bank systems. For each of these APIs, please provide the following:
 - Name of API and/or product calling critical bank systems. If API calls are external, please also list the whitelisted domain(s) making the calls.
 - What critical systems is this API calling?
 - What function/process is this API facilitating?
 - Is this API internally developed, developed on behalf of the bank by a third party, or developed by a contracted service provider/fintech?
 - Please provide narrative around API controls implemented. At a minimum, please address:
 - What authentication standard is used to authenticate incoming API calls?
 - What systems/interfaces are used to whitelist domains to allow incoming API calls to critical bank systems? If not provided elsewhere, provide a brief overview of user access controls over those systems.

b4,b8

- Preventative control – Once a domain is whitelisted, how does the bank restrict API call activity to only the bank systems and fields the end product needs?
 - For example, a budgeting tool for consumers needs to read account balance but not send payments related API calls such as wire or ACH.
- Preventative Control – How does the bank restrict API call activity to specific fields or call type.
 - For example, that same consumer budgeting tool needs to read account balance in the core processing system, but not write to account balance. Further, it may need to read some fields but likely not fields like TIN/SSN.
- Detective Control – Please provide narrative around the scope of API logging, aggregation, and review at the bank. Are API logs being ingested into SIEM and alerts crafted for anomalous API calls, such as the above example of the budgeting software tool trying to write to account balance instead of read or call the wrong bank systems/functions?
- Please provide an inventory of all internet domains built and managed by the bank. Provide brief narrative of the purpose of each domain and whether it is facilitating APIs.

EXAMINATION PLANNING MEMORANDUM

Examination Information	
Name of Financial Institution:	b4,b8
Location (City, State)	
Certificate Number	b8
EIC/Prepared By:	
As of:	June 30, 2024
Start:	October 07, 2024
Estimated End:	November 15, 2024
Estimated Hours:	b4,b8

EXAMINATION RATINGS and DATA

	Prior Examination 03/13/2023 / S	Prior Examination 09/20/2021	Prior Examination 03/30/2020 / S
CAMELS Rating	b4,b8		
IT Rating			
Trust (if applicable)			
Compliance (rating/date)			
CRA (rating/date)			
Adversely Classified Items Coverage Ratio			

EXAMINATION PLANNING RATIOS

	Current Quarter Ratios 06/30/2024	Year-end Ratios 12/31/2023	Prior Year-end Ratios 12/31/2022
Total Assets	b4,b8		
Tier 1 Leverage Ratio			
Asset Growth Rate			
Net Interest Margin			
Return on Avg. Assets			
Total PD*/Gross Loans			
Allowance for Credit Losses on Loans and Leases/Total Loans and Leases			
Net Loans/Total Assets			
Net Non Core Dependency (\$250M)			
*All past-due loans plus nonaccrual divided by gross loans			

OTHER RISK MEASURES

Other Risk Flags	Comments
b4,b8	The level of exposure is very elevated due to the rapid growth and significant exposure to 1-4 family loans and C&D (mostly 1-4 family).
b4,b8	b4,b8

Risk Indicators: Y

b4,b8

	C	A	M	E	L	S	Comp
SCOR: 03/31/2024	b4,b8						
Probability of Downgrade (%):							

PRELIMINARY RISK ASSESSMENT

- Provide a brief description of the institution's business model, risk profile, and complexity.
- Summarize discussions held with institution management and case manager.
- Briefly comment on risk for each examination area.
- Discuss planned procedures and workpaper documentation, commensurate with the risk presented for each examination area.

Overview of the institution's business model, risk profile, and complexity: Describe the institution's business model, including identification of the financial activities in which the institution has chosen to engage. Describe the risk profile through a determination of the types and quantities of risks to which the institution is exposed and the quality of the risk management practices used by institution management to control these risks. Describe the complexity of the institution's operations, including a review of its balance sheet structure and scope of the business lines, customer base, and product and service offerings.

BUSINESS MODEL

b4,b8			
TI	b4,b8		
b4,b8	LPOs. The LPOs are throughout the state of b4,b8 and the branches are all in central		
b4,b8	A lease is in place for an LPO in b4,b8 to open in the near term. The bank is wholly-owned by a non-complex, shell holding company b4,b8 b4,b8		
	b4,b8	b4,b8	b4,b8
	b4,b8	b4,b8	b4,b8
	b4,b8	b4,b8	
	b4,b8	In 2024, management has initiated the process to begin working with a crypto exchange and is in the process of seeking regulatory approval/guidance for such a partnership. Management also added a b4,b8 Fintech customer b4,b8 in 2024, which significantly expanded cash and ACH activity related to b4,b8 companies. Both the crypto-exchange and b4,b8 added b4,b8 of non-interest bearing deposits as well. Management has moved to a larger reliance on wholesale funds, primarily brokered deposits, to fund growth. Core deposits now account for just b4,b8 of average assets as of June 30, 2024, down from almost b4,b8 at year-end 2022. Brokered deposits account for b4,b8 of average assets, up from b4,b8 over the same time.	

RISK PROFILE

The overall risk profile is increasing and is elevated given the rapid growth funded primarily by wholesale funding, non-traditional deposit sources (crypto **b4,b8**), offering of new services **b4,b8** banking/crypto exchange **b4,b8** and weakening earnings performance and capital ratios. While the loan portfolio remains focused in 1-4 family lending, there is an elevated exposure to C&D **b4,b8** of Tier 1 Capital and ACL). CRE exposure in total is **b4,b8**, but falls to **b4,b8** if owner-occupied credits are excluded per guidance. Additionally, while not at alarming levels, the past due trend for 1-4 family loans and C&D loans are both trending poorly.

The rapid growth presents an elevated level of risk. Total assets have **b4,b8** in the 30 months between year-end 2021 and June 30, 2024. Core deposit growth only accounts for about **b4,b8** of the funding for the growth, with the remainder primarily coming from brokered deposits (now **b4,b8** of average assets) and large time deposits. This change in funding mix, combined with the increase in interest rates, has compressed the NIM from **b4,b8** to **b4,b8**. As the margin has declined, management has sought out new non-interest sources of income, including **b4,b8** **b4,b8** Management is also actively pursuing additional third-party processor arrangements related to **b4,b8** **b4,b8** payroll processing for **b4,b8**, as well as additional relationships with other digital asset exchanges, **b4,b8**

Capital retention has also not kept up with asset growth. The Tier 1 Leverage ratio is down from [b4,b8] at year-end 2021, to [b4,b8] as of June 30, 2024. While dividends have been modest, and the holding company has injected [b4,b8] [b4,b8] in capital over this time-frame, the growth has far outpaced retention.

The addition of the

[b4,b8]

[b4,b8] [b4,b8], and exposure to crypto assets (bank has some crypto exchange deposit accounts and is planning to partner with an exchange to give customers direct access to crypto trading through an application), presents a very high level of risk, both through third-party risk, and operational risk due to the significant increase in risk management and operational demands on staff. Of note is that the website for the [b4,b8]

[b4,b8] Such services greatly increases the risk posed by such a company.

Management also has a significant relationship with a large third-party payment processor, [b4,b8] [b4,b8] is a [b4,b8], who works with traditional businesses as well as [b4,b8] to provide payment solutions. Management is also actively looking to add additional TPPPs, one being [b4,b8] to facilitate [b4,b8], and [b4,b8] to process payroll for [b4,b8]

AML/CFT risk is elevated and increasing as discussed below due to the continued and increasing servicing of cash intensive [b4,b8] related businesses. The relationship with the crypto exchange, while not in place yet, also displays an elevated degree of risk tolerance from management and the board as wire activity is expected to increase by around [b4,b8] wires a month if the agreement with the crypto exchange is implemented.

COMPLEXITY

The bank now represents a very high level of complexity. The desire to enter into the crypto market, on top of already heavily banking [b4,b8] related companies, [b4,b8] and starting up an [b4,b8] all in a very short window, paired with rapid growth, presents a very complex institution. The rapid growth and high reliance on wholesale funding also creates significant complexity for all component areas.

Discussions: Include the date, names, and summary of discussions held with management. Also include the date, name, and summary of key risk discussions with the case manager, field supervisor (FS)/supervisory examiner (SE), and institution's external auditor.

Bank Management

EIC [b8] held a discussion with President/CEO [b4,b8] on August 22, 2024. President [b4,b8] reported that the main challenges facing the bank have been the rapid increase in rates, which drove down mortgage activity and increased funding costs. He also noted that the regulatory environment is challenging, as the bank is active in several products/services with heavy regulatory focus. He stated that management has had a good relationship with regulators in the past on such issues, and hopes that the expansion into digital assets will go as well as the expansion into [b4,b8] banking. President [b4,b8] expressed his belief that community banks need to be looking to change and be innovative, and that not doing so would likely lead towards becoming obsolete.

He stated that the local RE economy has been slow, but that recent months have seen an uptick in activity.

President [b4,b8] reported that he believes management has done a good job bringing on experienced personnel to help manage the several new products/services. New staff was hired to managed the [b4,b8] banking operations, which are just getting started. Management has also hired some employees with digital asset experience, and contracted with some others, to help plan the entry into the digital asset marketplace through the partnership with [b4,b8] Other than those additions, there were [b4,b8] [b4,b8]

Case Manager

The EIC discussed the upcoming examination with CM [b8] at multiple points during September and October 2024 to ensure the scope included any areas of concern.

Supervisory Examiner

The EIC discussed the examination plan with field management (SE [b8])

[b8] during several conversation in September and October 2024 prior to the exam to include any of their concerns in the scope.

A discussion was also held on September 23, 2024, with representatives from the [b4,b8] Chicago RO, and the WO Emerging Technology group. The discussion centered around the planned digital asset exchange activity, and the resources available from the Emerging Technology group. There was also discussion about investigating any future fintech related plans of management due to the recent hire of a VP of Fintech.

External Auditor

A standard CPA contact letter was sent to external auditor [b4,b8] via email to [b4,b8] on August 22, 2024.

Examination Areas and Planned Procedures: *Comment on CAMELS, specialty examinations, and other areas based on the preliminary review of available information (such as the UBPR, risk profile, request list items, etc.) and discussions with the case manager, FS, and institution management. Evaluate risk for each examination area. Provide direction on planned examination procedures, and describe procedures being conducted for training purposes, if applicable.*

In accordance with outstanding instructions, examiners will complete the Core Analysis Decision Factors in the primary ED modules in ONE Resource. Examiners may use the supplemental ED modules if deemed necessary.

Examiners will complete the Interest Rate Risk and Liquidity Risk Response Form and Credit and Consumer Products/Services Survey.

CAPITAL

Capital retention and augmentation has not kept up with asset growth in recent years, resulting in declining capital ratios. Management had elected to use the CBLR in recent years, but was forced to stop using it as the Tier 1 Leverage ratio [b4,b8]

[b4,b8]

[b4,b8]

[b4,b8] Capital planning, risk limits, and the strength of the holding company will all be reviewed closely.

ASSET QUALITY (including loan scope)

The primary line of business for lending continues to be 1-4 family related loans. As of June 30, 2024, over [b4,b8] of the loan portfolio, and nearly [b4,b8] of Tier 1 capital and the ACL are 1-4 family related loans (1st or 2nd liens or construction of). The construction piece related to 1-4 family homes is [b4,b8] capital. Total CRE, including NOO, is [b4,b8]. As the total exposure to C&D loans is [b4,b8] of Tier 1 Leverage capital and the ACL, the Examiners will complete the CRE work-program. Examiners will also closely review underwriting, especially for the new 1-4 family loans originated, and sample CRE and C&D loans to ensure sound administration and underwriting.

[b4,b8]

MANAGEMENT

Given the significant growth, and addition of new products and services discussed in the Risk Profile and Complexity sections above, risk management practices and strategic planning will be a major focus of the examination. Particular focus will be given to the processes of selecting, and the ongoing risk management of third parties, the decision making process to add new services, and growth/earnings/capital plans. Board involvement in risk selection, the quality of information brought by management to the board for making decisions, and the quality of [b4,b8] for monitoring new initiatives will also be areas of focus.

EARNINGS

b4,b8

[b4,b8] It is clear that management has brought on additional staff in specialty areas to grow those lines of income, but that income has not grown to a level to support the overhead. Management's plans for maintaining or growing non-interest income will be a focus of the examination, as it is clear from the expansion of products and services that alternative sources of income are a significant priority. Due to the rapid changes, budgeting will also be closely reviewed.

LIQUIDITY

b4,b8

[b4,b8] A portion of these deposits are related to the relationship with the [b4,b8] and crypto exchanges. The volatility of these deposits will be closely evaluated during the exam. Given the high volume of non-core funding and rapid growth history, examiners will review funds management practices closely, evaluating risk limits, stress testing, and the contingency funding plan. Examiners will also discuss long-term liquidity plans.

SENSITIVITY TO MARKET RISK

b4,b8

[b4,b8] Examiners will evaluate management's strategy to deal with the mismatch of pricing. Also, given the significant sources of non-interest income, how management considers those sources when looking at risk limits for sensitivity to market risk will also be closely reviewed.

ANTI-MONEY LAUNDERING/COUNTERING THE FINANCING OF TERRORISM (Including complexity assessment)

The bank operates out of [b4,b8] Management is active in banking the [b4,b8] banking industry. [b4,b8] banking services include direct relationship sourced through the bank's Specialty Banking Division. Additional activities include [b4,b8] solutions through its sponsor relationship with Third Party Payment Processors such as [b4,b8] that manage programs such as [b4,b8]

[b4,b8] [b4,b8] Management reports all processing services for direct [b4,b8] merchants was turned off. [b4,b8]

[b4,b8] Management has also added a relationship with a Fintech, [b4,b8] that significantly expands banking services to this industry. [b4,b8] has developed a client interface that provides a full online banking platform tied to [b4,b8] proprietary subledger system. [b4,b8] and two other [b4,b8] sponsor banks, [b4,b8] transact payment banking services through [b4,b8] clearing accounts

where funds are collected prior to moving out to either **b4,b8** or alternatively credit to **b4,b8** FBO account for **b4,b8** customers. **b4,b8** **b4,b8** Moreover, bank is evolving its "banking as a service" offerings and has recently notified the FDIC of its planned engagement in crypto-related activities.

b4,b8

b4,b8

b4,b8

INFORMATION TECHNOLOGY (Including complexity assessment)

Background, ITP, and IT Environment:

The Information Technology Profile (ITP) was completed on July 22, 2024. The ITP Scoring Matrix reflects a Net Technology Profile Score of **b4,b8**

b4,b8

Management noted no IT related security incidents since the previous examination, no foreign contracts, and no involvement in blockchain technology. **b4,b8**

b4,b8

Prior IT Examination:

b4,b8

IT Examination Scope:

The IT Examination will include review of the bank's conformance with the Interagency Guidelines Establishing Information Security Standards (Appendix B to Part 364 of FDIC Rules and Regulations). The Interagency Guidelines on Identity Theft Detection, Prevention, and Mitigation (Appendix J to Part 334 of the FDIC Rules and Regulations) will be reviewed. Examiners will use the Information Technology Risk Examination (InTREx) work programs to evaluate the IT environment. The scope of the IT examination will emphasize controls surrounding critical components including network operations and monitoring, information security controls, and cybersecurity preparedness. Examiners will focus additional emphasis on wire transfer and ACH controls due to high activity noted. Project Management and Vendor Management will be in focus due to changes in key vendors and key technologies implemented. Examiners will limit the review of audit to the recommendation in the last Report and review of the audit scope and the audit risk assessment. In addition, Business Continuity Management will be limited to review of program guidance, disaster recovery tests/ tabletop exercises performed, and training provided for staff. All other areas are expected to receive normal review.

b4,b8

Examination Staff	Aug 26- 30	Sept 2- 4	Sept 9-13	Sept 16-20	Sept 23-27	Total Hour s	Assignments
(b8)(EIC)	b4,b8						Management with focus on key management changes, Wire Transfer and ACH, and Audit
(b8)							Development and Acquisition, to focus on Project Management, Vendor Management. Support and Delivery, with the exception of Wire Transfer and ACH. Also, the Information Security and Cybersecurity Workprograms.
Projected Hours							

Logistics:

The on-site examination will occur the week of September 16 and possibly a couple days the week of the 23rd. All meetings will be held onsite and meeting times will be set-up with bank management during an initial kick-off meeting the week of September 9th, at a time to be determined. Examiners will be working in a conference room at the bank's

(b4,b8) A telephone meeting will be set up with management to discuss logistical information the week of (b4,b8)

Conclusion:

The IT examination concluded the week of September 23rd and an exit meeting was held with management on

September 25th. The preliminary findings are **b4,b8**
b4,b8

TRUST (if applicable) (Including complexity assessment)

OTHER (if applicable, including any specialized business lines or characteristics)

b4,b8

b4,b8

Internal Routines and Controls

With the rapid growth in asset size, examiners will sample some internal controls, including vault procedures, official checks, GL reconciliations, and insider expense approvals to determine if controls are appropriate.

b4,b8

STAFFING AND ASSIGNMENTS

Examiner	Assignment	Location (On-site/Off-site)
1	EIC	On-Site
2	OM	Hybrid
3	AM	Hybrid
4	IT	Hybrid
5	AML/CFT	Hybrid
6	Loans/Mortgage Banking	Hybrid
7	Loans/CECL	Hybrid
8	Loans	Hybrid
9	Operations	Hybrid
10	Mortgage Banking	Hybrid
11	Operations	Hybrid
12	Loans	Hybrid
13	Loans	Hybrid
14	Loans	Hybrid
15	Operations	Hybrid
16	AML/CFT	Hybrid
17	Merch CC Sub	Hybrid
18	IT	Hybrid
19	Crypto	Hybrid
20	AML/CFT	Off-Site
21	AML/CFT	Hybrid
22	Loans	Hybrid
23	Loans	Off-Site
24	Loans	Off-Site
25	Loans	Off-Site

b8

Other Staffing Notes:

- 1) Concurrent to the examination, the Emerging Technology Group will be conducting a review of management's proposed relationship with the crypto asset exchange [b4,b8]
- 2) There is a need for additional experienced staffing to assist in the review of the [b4,b8]
[b4,b8] This could potentially be very high risk activity given the types of customers targeted by the [b4,b8] and the amount of income generated, which was over [b4,b8] through June 30, 2024.
- 3) Additional assistance and expertise could also be needed to help evaluate the new [b4,b8]
[b4,b8] program, as office SME in that area have limited availability during the examination.
- 4) Due to the massive increase [b4,b8] activity through the [b4,b8] relationship, as well as risks posed by TPPP relationships, the [b4,b8] and planned digital asset activity, additional resources could also be needed in the AML/CFT review to ensure that a comprehensive review is completed in a timely manner.

Total projected hours of [b4,b8] The complexity and rapid change fully supports exceeding benchmark targets. Additionally, there will be some training hours. With loan review available to be done remotely, as well as some officer not being local, remote work will be utilized when appropriate. It is projected that between 25-30 percent of hours will be on-site.

Communications Plan: Document request should go through RO [b8] via the AM or OM. The EIC will have weekly discussions with [b8] of the Emerging Technology group to discuss findings related to management's plans to engage in digital asset activities through exchanges.

TRAINING

Pre-Commissioned Examiners	Trainer	Benchmarks
1.	b8	Various operations
2.		Loan review (CRE Work-program)
3.		Loan review
4.		Loan review
5.		Securities, Earnings, Capital
6.		
7.		
8.		
9.		
10.		

LOGISTICAL INFORMATION

	Information
Institution Address & Parking Info	[b4,b8]
Working Hours	8:00AM to 5:00PM Remote loan review will start at 8:30 AM as management must initiate each session daily.
Dress Code	Business Casual
Connectivity Plan	Cell coverage is good
Key Institution Management Absences	None
Other	

EXAMINATION NUMBERS

Safety and Soundness	AML/CFT	Information Technology	Trust (if applicable)
b4,b8			

EIC	b8		
FS/Designee Approval	b6,b8		Date 10/3/2024



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

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

November 19, 2024

Board of Directors

b4,b8

Dear Members of the Board:

The FDIC acknowledges the notification provided by **b4,b8** (the Bank) dated February 8, 2023, regarding the Bank's intent to offer a third-party authorization verification service for customer transactions in crypto-assets ("TPS Service"). The notification was provided pursuant 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.

The FDIC reviewed the documents provided by the Bank on June 5, 2023, in response to the FDIC's April 19, 2023 information request. The FDIC also reviewed the documents provided by the Bank on October 13, 2023, in response to the FDIC's August 30, 2023 information request. On January 2, 2024, the FDIC sent an additional letter to the Board requesting further information necessary to allow the FDIC to assess the safety and soundness and consumer protection implications of the TPS Service proposal. On March 18, 2024, the FDIC commenced a full-scope examination of the Bank. As the Bank had not responded to the FDIC's January 2, 2024 letter, examiners held meetings with President **b4,b8** and Chief Operating Officer **b4,b8** to discuss the status of the proposal. The discussions concluded that management had only completed due diligence on potential customers/vendors and that the Bank had not commenced crypto-related activities.

During a September 26, 2024 meeting with the Board of Directors, FDIC officials asked for an update on the status of the TPS Service proposal. In summary, Chief Executive Officer and Chairman of the Board **b4,b8** indicated that management is not actively pursuing the proposal at this time. By email to the FDIC on November 6, 2024, President **b4,b8** confirmed the same. The FDIC acknowledges the Bank's updated status related to this activity. Accordingly, with regard to the Bank's February 8, 2023, notification pursuant to FIL-16-2022, the FDIC's review of this matter is complete. We request that the Bank notify this office if the status of this activity, or other crypto-related activity, changes in the future, including when the bank starts to re-consider and pursue the TPS Service.

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 FDIC Review Examiner **b8** at **b6,b8** or Case Manager **b8** at **b6,b8**. 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

cc: Federal Reserve Bank of Chicago

b8

OFFICE MEMORANDUM

Federal Deposit Insurance Corporation

DATE: January 7, 2025

To: File

From: **b8**
Case Manager

Subject: 1/7/2025 Discussion held between FDIC Regional staff - **b4,b8** Response to
FDIC Crypto-Related Activities Letter

Re: **b4,b8**

Today, a meeting was held between FDIC attendees Financial Analytics Data **b8**
b8 Senior Examination Specialist **b8** Field Supervisor **b8**
Supervisory Examiner **b8** Senior Examiner **b8** and Case Manager
b8

The discussion covered the next steps for the FDIC Regional Office staff to propose to the FDIC Washington Office staff. The next steps will be in response to **b4,b8** letter to the FDIC, dated December 22, 2024, in which the bank responded to the letter the FDIC sent to the Board of Directors, dated October 29, 2024, with the subject Crypto-Related Activities Supervisory Feedback Letter.

The result of the conversation was for the Regional Office to propose sending **b4,b8** Board and management a letter acknowledging receipt of their written response. Additionally, the Regional Office can propose to the Washington Office that a subsequent crypto-related activities review be conducted in alignment with future onsite reviews under a separate request to the bank.

RMS:Sf:Document2
Case Name:
RADD

Interim Bank Contact

Examiner / Caller	Bank/Location/Cert#		Contact Date
b8	b4,b8		May 26, 2022
Case Manager	Last Exam Date	Last Exam Rating	SCOR Composite Rating
b8	b4,b8 State	b8	b8
Total Assets	Tier 1 Leverage Capital Ratio	Past Due Ratio	Return on Average Assets Ratio
b4,b8	b4,b8	b4,b8	b4,b8

Contact Summary:

An interim contact was held with President **b4,b8** CFO **b4,b8** and CCO **b4,b8** via Microsoft Teams on May 26, 2022. A review of the last State ROE, the **b4,b8** UBPR & Call Report, and correspondence since the last exam was performed. No significant findings were noted in the last ROE and President **b4,b8** stated that all recommendations have been addressed.

b4,b8

President **b4,b8** stated that there was a lot of discussion on crypto activities at a recent conference he attended. He stated that crypto does not seem to be going away and the bank has had discussion about whether this is something they should get involved with in order to stay ahead of the curve. I communicated to the management team that current guidance recently released requires the bank to discuss any crypto activities with the regulatory agencies before engaging in such activity.

President **b4,b8** also stated that they have been working on succession planning, implying that there may be some changes in a few years. **b4,b8** Lastly, **b4,b8** **b4,b8** stated that the bank's core processing contract with **b4,b8** and they will be meeting with other processors this summer and making a decision on whether to stick with **b4,b8** or move to another processor.

b8

b4,b8

b8

From:

b8

Sent:

Tuesday, September 20, 2022 9:49 AM

To:

b8

Subject:

RE: [EXTERNAL MESSAGE] FIL-16-2022

b4,b8

Good morning,

b8

Looks good! Thanks for the review.

b8

Review Examiner | Atlanta Regional Office

Federal Deposit Insurance Corporation

Division of Depositor and Consumer Protection

1010 Peachtree Street, NE, Atlanta, Georgia 30309, Suite 800

b6,b8

b8



From:

b8

Sent: Tuesday, September 20, 2022 9:41 AM

To:

b8

Subject: FW: [EXTERNAL MESSAGE] FIL-16-2022

b4,b8

Good morning

b8

I've attached a draft letter to b8 to let them know that the crypto-related activity is outside of our scope. Once you've had a chance to review, I will send it to legal next.

Thanks

b8

From:

b8

Sent: Tuesday, September 20, 2022 9:33 AM

To:

b8

Cc: Rollinson, Bruce <BRollinson@FDIC.gov>

Subject: RE: [EXTERNAL MESSAGE] FIL-16-2022

b4,b8

b8

Looks good to me. RO DCP and Legal also need to review before we send the draft back to the WO. Please let me know when this review has been performed.

Thanks,

b8

From: [b8]
Sent: Tuesday, September 20, 2022 9:19 AM
To: [b8]
Cc: Rollinson, Bruce <BRollinson@FDIC.gov>
Subject: RE: [EXTERNAL MESSAGE] FIL-16-2022 [b4,b8]

Hi [b8]

I've attached a draft for your review.

Thanks,

[b8]

From: [b8]
Sent: Monday, September 19, 2022 2:34 PM
To: [b8]
Cc: Rollinson, Bruce <BRollinson@FDIC.gov>
Subject: FW: [EXTERNAL MESSAGE] FIL-16-2022 [b4,b8]

[b8]

Please prepare the draft and then route to me before we send through the RO chain,

Thanks,

[b8]

From: [b8]
Sent: Monday, September 19, 2022 2:30 PM
To: [b8]
Cc: [b8] Rollinson, Bruce <BRollinson@FDIC.gov>; Ahrenholtz, Jason P. <jahrenholtz@FDIC.gov>; [b8] Brown, Sherri W. <SWBrown@FDIC.gov>; [b8]
Subject: RE: [EXTERNAL MESSAGE] FIL-16-2022 [b4,b8]

[b8] - Rae-Ann and Chris concurred this is out of scope. Can you please draft letter back to the back acknowledging receipt and notifying them of the decision? An example is attached if you'd like to use it. Please send it back for review once drafted. Thanks.

From: [b8]
Sent: Wednesday, August 24, 2022 3:03 PM
To: [b8]
Cc: [b8]
Subject: FW: [EXTERNAL MESSAGE] FIL-16-2022 [b4,b8]

[b8]

We talked with **b4,b8** and they provided the attached as follow-up. The activity is just ACH transactions flowing through deposit accounts. Nothing significant. I don't see that we need to explore this further and don't believe it fits in the FIL.

The loan is secured by business assets. Not material to the bank's footings. And not secured by crypto. This also should fall outside the FIL.

Thanks,

b8

From: **b8**
Sent: Wednesday, August 24, 2022 2:12 PM
To: **b4,b8**
Cc: **b8**
Subject: FW: [EXTERNAL MESSAGE] FIL-16-2022 **b4,b8**

Thank you, **b4,b8**

From: **b4,b8**
Sent: Wednesday, August 24, 2022 2:02 PM
To: **b8**
Subject: [EXTERNAL MESSAGE] FIL-16-2022 **b4,b8**

This message was sent securely using Zix®

b8 See attached responses to follow-up questions related to FIL-16-2022. The individual user activity is an estimate. Please let us know if you need any additional information.

Thanks,

b4,b8

This message was secured by Zix®.