

Digital Assets

Judith Hazen

**Vice President,
Supervision and Risk Management**



**BANKING &
SUPERVISION FORUM 2022**
FEDERAL RESERVE BANK OF KANSAS CITY

Supervised Institutions' Interest In Crypto-Assets Continues

- Supervised institutions across the Federal Reserve system continue to express interest in crypto-assets, even amidst the latest “crypto winter”
- Key drivers of this continued interest include:
 - Customer demand
 - Revenue opportunities
 - Competitive pressure

AMERICAN BANKER

CRYPTOCURRENCIES

Crypto-friendly banks stay the course despite bitcoin volatility

By Penny Crossman June 27, 2022, 2:31 p.m. EDT 7 Min Read

Alan Lane is undaunted by the recent drops in cryptocurrency prices and the tanking of stablecoins like TerraUSD.

“We’re not surprised by the market volatility — we’ve experienced conditions like this before,” said Lane, who is CEO of [Silvergate Capital](#), a bank in La Jolla, California, that provides an alternative payment rail institutional investors can use to buy and sell digital assets, even at night and on weekends when normal payment mechanisms like the automated clearing house

DIGITAL CURRENCIES

Community banks rush to meet customer demand for bitcoin

By Penny Crossman June 23, 2021, 3:03 p.m. EDT 6 Min Read

David Felch, CEO of Border Bank in Fargo, North Dakota, says his son sparked his interest in bitcoin.

“He had been investing for three to five years and got me into reading some books about bitcoin and the history of money,” Felch said. “Then he started asking me what banks are going to do, since people are already buying bitcoin, to mitigate the possibility of losing their customer base to it. At the time I didn’t have a very good answer for him.”

However, Most Institutions Are Proceeding Cautiously

- Relatively few “live” offerings
- Limited direct exposure to crypto-assets
- Some use cases being explored include:
 - Crypto-asset collateralized loans
 - Crypto-asset custody (in-house and via sub-custodian)
 - Crypto-asset trade facilitation
 - Stablecoin issuance and distribution
 - Other “crypto-adjacent” activities



The Fed Has Responded By Issuing Supervisory Guidance

- SR 22-06 on “Engagement in Crypto-Asset-Related Activities by Federal Reserve-Supervised Banking Organizations”
 - Highlights opportunities and risks associated with crypto-assets
 - Requires institutions wishing to engage in these activities to:
 - Notify the Federal Reserve prior to commencing the activities
 - Complete legal permissibility analysis and determine filing requirements
 - Ensure adequate controls in place to conduct the business in a safe and sound manner



As Have The Other Federal Banking Authorities (FBAs)

- OCC and FDIC have issued similar guidance establishing notification or supervisory non-objection
- OCC also issued guidance on permissibility of specific crypto-asset-related activities
- FDIC has issued an advisory to insured institutions regarding deposit insurance and dealings with crypto-asset companies
- FDIC also issued cease and desist letters to six crypto-asset firms regarding false and misleading claims related to deposit insurance



FBA's Are Incorporating Crypto Into Supervisory Approaches

- Fed is building supervisory expectations and oversight into existing supervisory programs, per SR 22-06
 - Engagement with supervised institutions regarding permissibility and safety and soundness considerations of crypto-asset related activities
 - System-wide effort to coordinate a consistent supervisory response across Federal Reserve districts
- Coordination and communication with other FBA's is ongoing
 - Some of these efforts are described in the “Joint Statement on Crypto-Asset Policy Sprint Initiatives and Next Steps” issued in November 2021
 - Intended to ensure greater consistency in supervisory approach as well as to provide additional clarity to supervised institutions



Other Supervisors and Regulators Are Also Weighing In

- Several states have issued special purpose charters or licenses for digital-asset related activities
- Basel Committee on Banking Supervision has issued two consultative documents on the prudential treatment of crypto-asset exposures in June 2021 and 2022
- The SEC has been active in enforcement and outspoken about its views regarding the legal classification of crypto-assets

Risk.net

Basel crypto capital plan threatens banks' DLT projects

Proposed infrastructure add-on could make blockchain settlement and payment systems non-viable

Bloomberg

US Edition ▾

SEC Lawsuit Hints at Case for US Jurisdiction Over Ethereum

- Potential argument for SEC oversight is buried in a lawsuit
- SEC says Ethereum network nodes most densely clustered in US

By [Suvashree Ghosh](#)

September 20, 2022, 7:46 AM UTC Updated on September 21, 2022, 1:05 AM UTC



 **CoinDesk**

The SEC Is Getting Clearer About How It Plans to Regulate Crypto



The Administration Is Promoting A Comprehensive Approach

- Biden Administration has announced several recent initiatives related to digital assets¹
- Some areas of focus:
 - Interagency cooperation
 - Opportunities and risks of stablecoins
 - Consumer, investor, business protection
 - Financial stability and systemic risk
 - Illicit finance, AML/CFT
 - Impact and feasibility of a CBDC
 - Recommendations that Congress act to strengthen federal regulatory oversight

THE WALL STREET JOURNAL.

Biden Administration Targets Stablecoin Digital Currency for Banklike Oversight

A Treasury-led panel asked Congress to set up a regulatory framework to address growing risks

FINANCIAL TIMES

Cryptocurrencies ✓ Added

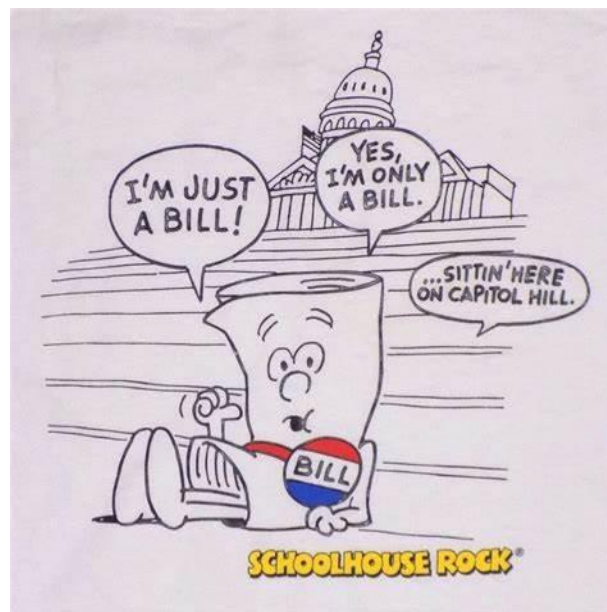
Joe Biden's administration urges Congress to speed up crypto rules

Top US financial regulators call for new laws to cover digital assets such as bitcoin

¹ These are: (i) The Presidential Working Group on Financial Markets Report on Stablecoins, issued in November 2021; (ii) an Executive Order on Ensuring Responsible Development of Digital Assets, issued in March 2022; and (iii) the Comprehensive Framework for Responsible Development of Digital Assets, issued in September 2022.

While Congress Considers Its Options

- Congress has introduced multiple bills and legislative drafts related to crypto-assets
- Several have received bipartisan support from prominent members of both houses
- While none have yet been passed into law, the proposals offer some insight into how Congress is thinking about key issues:
 - Stablecoin issuance authority
 - Regulatory treatment of crypto-assets and jurisdictional boundaries
 - Whether and how a CBDC might be introduced



In Conclusion...

- What can you expect to see in the short-term?
 - Continued interest in crypto-assets
 - Additional clarity from supervisors, regulators, and lawmakers regarding permissibility, safety and soundness, and other outstanding issues
- What can you do?
 - Read SR 22-06 and understand what it says
 - Maintain an ongoing and open dialogue with your regulators about your plans, interest, or any questions
 - Consider sharing your views or concerns with your Congressperson

