Digital Assets

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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
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.
FBAs 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 FBAs 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
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

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