

Crypto Assets

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Until Recently, Supervised Institutions' Remained Interested in Crypto-Assets

- Through early 2023, supervised institutions across the Federal Reserve system continued to express interest in crypto-asset-related activities, even amidst the “crypto winter” of 2021-2022
- Key drivers of this continued interest included:
 - Customer demand
 - Revenue opportunities
 - Competitive pressure



However, Most Institutions Were Still 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



While Supervisors Continued To Provide Additional Clarity

- In November 2021, Federal Banking Agencies (FBAs) issued a joint statement on policy sprint initiatives and next steps
- By late 2022, the FBAs had all issued guidance on engagement in crypto-asset-related activities
 - Notification (all) & non-object (OCC)
 - Legal permissibility (all)
 - Safety and soundness, consumer protection, and legal compliance (all)
- The FBAs had also begun incorporating crypto into supervisory approaches



Now, Supervised Institutions' Continued Interest in Crypto-Assets is Less Certain

- Recent events appear to have heightened supervised institutions' caution regarding crypto-asset-related activities
- Several institutions have paused or exited activities altogether
- Failure of banks perceived as having been crypto-friendly has heightened reputational risk

AMERICAN BANKER

CRYPTOCURRENCIES

Is crypto banking dead?

By Penny Crosman March 20, 2023, 1:57 p.m. EDT 8 Min Read



The signs of the death of crypto banking are everywhere. The two biggest crypto banks,



Silvergate Capital and Signature Bank, have been shut down by regulators. New York



Community Bank's Flagstar unit, which bought some of Signature's assets, did not acquire any



digital asset banking or crypto-related assets or deposits. [Hundreds of banks that were](#)

[working with NYDIG](#), a New York technology company, to let consumers track their bitcoin

THE WALL STREET JOURNAL

Banks Are Breaking Up With Crypto During Regulatory Crackdown

SEC and banking overseers step up scrutiny following collapse of FTX

By [Rachel Louise Ensign](#) [Follow](#) and [David Benoit](#) [Follow](#)

Feb. 16, 2023 5:30 am ET

Banks Step Up to Serve Crypto Firms After Signature, Silvergate Blowups

Crypto executives say they have received a positive reception from regional and smaller upstart banks

latory
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By [Alexander Osipovich](#) [Follow](#), [Rachel Louise Ensign](#) [Follow](#) and [Vicky Ge Huang](#) [Follow](#)

March 27, 2023 5:30 am ET

with crypto
the Securities

As Supervisors Sharpen Focus on Risks

- FBA and other stakeholder communications in 2021-2022 highlighted various risks
- Joint Statements by FBAs in 2023 focused on specific risks:
 - Joint Statement on Crypto-Asset Risks to Banking Organizations
 - Joint Statement on Liquidity Risks to Banking Organizations Resulting from Crypto-Asset Market Vulnerabilities
- Supported by Administration's Roadmap to Mitigate Cryptocurrencies' Risks

Liquidity, Other Risks in Focus in FBA Joint Statements in 2023

- Deposits “may be susceptible to large and rapid inflows as well as outflows,” driven by “end customers’ react[ion] to crypto-asset-sector-related market events, media reports, and uncertainty”
- Crypto-asset market volatility and potential impacts on deposit flows
- Crypto-asset industry interconnection and contagion
- Lagging risk management or governance practices
- Legal uncertainties
- Fraud and scams
- Unfair, deceptive, or abusive practices

Where Do We Go from Here?

- Supervised institutions' future level of interest remains uncertain
- Supervised institutions may still engage in legally permissible crypto-asset-related activities
- Provided they can conduct the activities in a safe, sound, and legally compliant manner
- What can you do?
 - Read recent guidance and joint statements and understand what they say
 - Maintain an ongoing and open dialogue with your regulators about your plans, interest, or any questions



Resources

- [Joint Statement on Liquidity Risks to Banking Organizations Resulting from Crypto-Asset Market Vulnerabilities](#) (February 2023)
- [Joint Statement on Crypto-Asset Risks to Banking Organizations](#) (January 2023)
- [Policy Statement on Section 9\(13\) of the Federal Reserve Act](#) (January 2023)
- [SR 22-6 / CA 22-6: Engagement in Crypto-Asset-Related Activities by Federal Reserve-Supervised Banking Organizations](#) (August 2022)

