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 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 fells 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?
  - **Presiden 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.