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

crypto-related activity at b4,b8 based on email communication received from bank management since April 2022.

Notes from Additional Discussion with Bank

On June 21, 2022, Case Manager (CM) b8 discussed the prospective activity with b4,b8 to clarify proposed activities and determine the applicability of FIL-16-2022. The following contains information received during the discussion between b4,b8 and CM b8

- The purpose of the accounts are 1) a non-interest bearing b4,b8 customer's U.S. dollars within that customer's b4,b8 exchange account" and 2) a separate b4,b8 operating account.
    - The anticipated holding account title would be b4,b8 as custodian of Customer X". The FBO account would contain only customer funds with no co-mingling for operating purposes.
    - Bank management does not believe that b4,b8 has issued a stablecoin yet and has not had any discussions with b4,b8 regarding holding stablecoin reserves.
- Source of funds that will be placed into account are anticipated to be:
    - Deposits from external bank accounts,
    - Proceeds from liquidation of digital asset products within b4,b8 platform, and
    - Disbursement of loan proceeds from digital asset securitized loans originated by b4,b8 (Note: Management originally responded with the first two sources, and did not acknowledge loan proceeds from b4,b8 lending product until specifically asked by CM b8
- Debit cards are not expected to be issued.
- Management was unable to provide anticipated overall activity size (by volume and number) and/or estimates of daily activity, but indicated that b4,b8 currently has b4,b8 customers. Bank management has also obtained a copy (date unknown) of b4,b8 financial statements. Reportedly, the statements illustrate equity of b4,b8 b4,b8 and total assets of b4,b8
- Management does not anticipate any sweep arrangements. However, President b4,b8 described the FBO account as "a b4,b8 b4,b8 b4,b8." The region will need further details to understand the structure.
- b4,b8 intends to maintain an ACH reserve deposit account at the bank for ACH chargebacks.
- Bank management would receive daily reporting from b4,b8 as well as view-only access into b4,b8 s customer reporting system, including b4,b8 know your customer information.
- The extent of contracts and agreements are not fully known. Bank management indicated that no contracts or agreements have been drafted to date. Information has been exchanged via emails between the bank and b4,b8
- Bank management intends to have b4,b8 -based external counsel b4,b8 b4,b8 review the terms of use agreement and b4,b8 agreements with customers. The scope or statement of work was not obtained by the region.

- 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"