

THE POWER OF BEING UNDERSTOOD

FUTURE OF TECHNOLOGY: DIGITAL ASSETS, BLOCKCHAIN AND REGULATIONS

What is the next iteration of the internet evolution?



June 2023

So what exactly is a Blockchain anyways?

A Blockchain is a ledger where transactions are recorded and confirmed **anonymously**. It's a record of events that is **shared between many parties**. More importantly, once information is entered, **it cannot be altered**.

Bitcoin was merely one of the first applications

“Blockchain is to Bitcoin, what the internet is to email. A big electronic system, on top of which you can build applications. Currency is just one.”

—Sally Davies

OVERVIEW OF CURRENT DIGITAL ASSET BANK REGULATORY GUIDANCE

Overview of Current Digital Asset Federal Regulatory Guidance

Interpretive Letters		Joint Statements		Other Guidance	
OCC	Date	Agencies	Date	Agency	Date
OCC-IL-1179	November 18, 2021	FDIC (FIL-08-2023)/OCC (OCC 2023-8)/Federal Reserve	February 23, 2023	SEC (SAB-121)	March 31, 2022
OCC-IL-1174	January 4, 2021	FDIC (FIL-01-2023)/OCC (OCC 2023-1)/Federal Reserve	January 5, 2023	FinCEN (FIN-2019-G001)	May 9, 2019
OCC-IL-1172	September 21, 2020	<p>The narrative guidance referenced in this chart represents the predominant regulatory guidance available to banks which are considering or are actively pursuing/deploying the following:</p> <ul style="list-style-type: none"> Onboarding customers of the bank looking to consume traditional/existing banking products and services (deposit, lending, or credit of associated with fiat currency) that are engaged with digital assets Expanding the business of the Bank to include various digital asset products and services such as custody, lending, exchange services, payment processing, and token issuance that directly involve digital assets. One additional document worth mentioning is FSOC October 2022 report on risks that cryptoassets pose to the financial stability of the traditional financial system. <p>NOTE: The above does not address SEC, state bank regulatory guidance, FTC, CFPB, and other Federal or Treasury agencies.</p>			
OCC-IL-1170	July 22, 2020				
FDIC					
FIL-35-2022	July 29, 2022				
FIL-29-2022	July 12, 2022				
FIL-16-2022	April 7, 2022				

OCC Interpretive Letters

- OCC Interpretive Letter #1170 (July 2020): Clarifies that national banks and federal savings associations may provide cryptocurrency custody services for customers.
- OCC Interpretive Letter #1172 (September 2020): Confirms that national banks and federal savings associations may hold reserves on behalf of customers who issue stablecoins pegged to a reserve of assets, including fiat currency.
- OCC Interpretive Letter #1174 (January 2021): States that national banks and federal savings associations may use independent node verification networks (INVNs) and stablecoins for payment activities and other bank-permissible functions.
- OCC Interpretive Letter #1179 (November 2021). Confirms activities addressed in OCC Interpretive Letters 1170, 1172, and 1174. More specifically, the letter addressed those activities noted as permissible in previous letters remain permissible as long as a national bank maintains adequate risk management frameworks to allow the bank to operate in a safe and sound manner.

Additionally, the OCC requires that banks must:

- Notify the OCC in writing of its intention to engage in the activity, and
- Receive the OCC's written notification of supervisory non-objection
- Have risk management systems and controls in place to conduct the activity in compliance with all applicable laws and in a safe and sound manner.

NOTE: As a practical matter the FDIC/Federal Reserve/state regulators do not have similar detailed guidance currently and look to the OCC as the lead agency in this activity.

Joint Bank Regulatory Statements

Date/Number	Name	Breakdown
<p>February 23, 2023</p> <p>Agencies: Federal Reserve/OCC /FDIC</p>	<p>Joint Statement on Liquidity Risks to Banking Organizations Resulting from Crypto-Asset Market Vulnerabilities</p>	<p>The statement raises concerns regarding the liquidity risk resulting from two types of deposit funding:</p> <ul style="list-style-type: none"> • Deposits from cryptoasset firms: deposits of end customers that are placed with a bank by a cryptoasset firm • Deposits that are reserves for stablecoins. It also points out as problematic a deposit funding base that is concentrated in cryptoasset-related entities
<p>January 3, 2023</p> <p>Agencies: Federal Reserve/OCC /FDIC</p>	<p>Joint Statement on Crypto-Asset Risks to Banking Organizations</p>	<p>The statement, while acknowledging that banking organizations are, subject to applicable law, neither prohibited nor discouraged from providing services to any particular class of customers, the regulators state that:</p> <ul style="list-style-type: none"> • Issuing or holding as principal crypto-assets that are issued, stored or transferred on an open, public, and/or decentralized network or similar system is “highly likely to be inconsistent with safe and sound banking practices” • The agencies have “significant safety and soundness concerns” associated with business models that are concentrated in crypto-asset-related activities or have concentrated exposures to the crypto-asset sector

Impact on Regulatory Examinations

- **Key Examination Themes:** Ensuring compliance with digital asset regulations, maintaining robust cybersecurity measures, and managing associated risks.
- **Areas of Focus:** AML/BSA/OFAC procedures and tooling, safeguarding customer assets through custody solutions, and ensuring customer protection.
- **Risk Assessment:** Evaluating potential risks of digital asset activities and the effectiveness of controls in place to mitigate those risks.

Additional Notes

- **Clues from Feb 23rd Joint Statement:** Any bank interactions with cryptoasset firms will be highly scrutinized. The statement is also further evidence of the agencies' evolving theory of potential liquidity risks posed by cryptoasset activities to safety and soundness. Finally, the attention on brokered deposits and Call Reports may indicate a new front is emerging.
- **Clues from Jan 3rd Joint Statement:** This statement provides banks with “key risks” to cryptoasset and cryptoasset sector participants such as: fraud, inaccurate or misleading representation to customers, significant volatility in cryptoasset markets, stablecoin run risk, contagion and concentration risk, immature risk management, heightened risk associated with open, public, or decentralized networks.

WHERE DO THINGS GO WRONG?

Transmitting Money

Transferring a digital asset including NFTs and tokens is transmitting money!

You need to be a money transmitter.



Know Your Customer



If you're transmitting money, you need to know who you're transmitting money to!

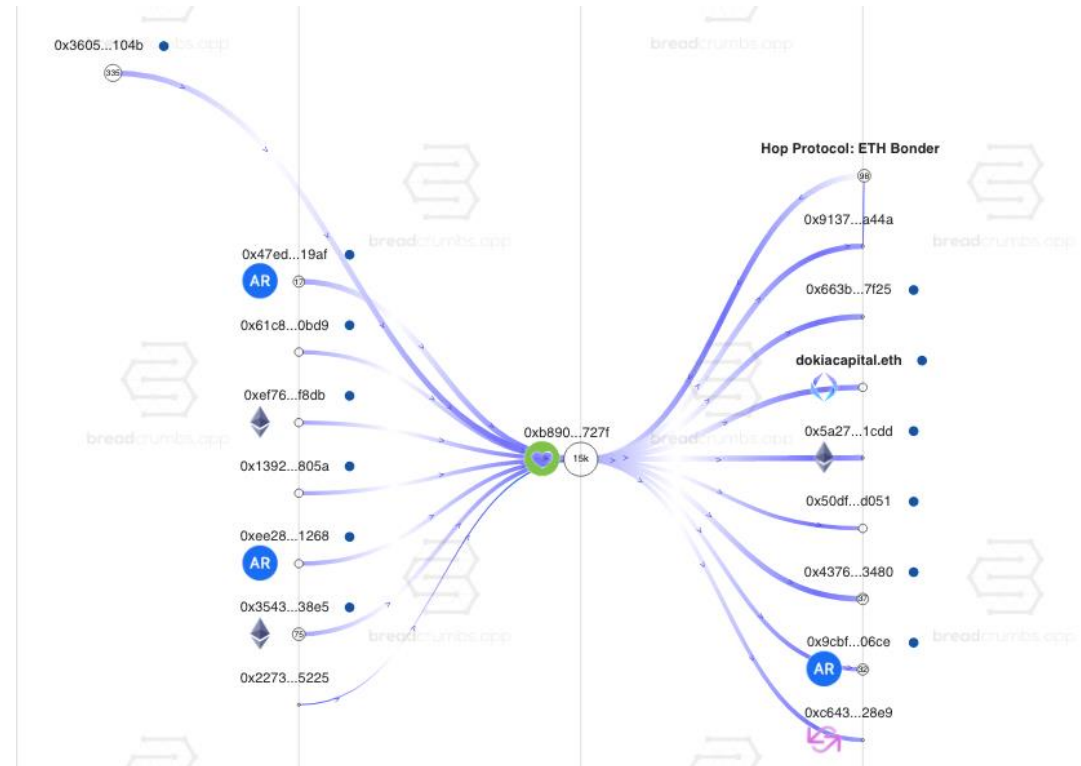
Outsourcing KYC does not mean you outsource the risk or responsibility.

Know Your Transaction

Because blockchains are so transparent, you can see the history of the assets.

Using analytics tools to understand where these assets came from – even multiple hops before it got to you is a requirement.

See: OFAC



USDC Donations for Earthquake Victims

Terms and Conditions

Coinbase:

All Supported Digital Assets held in your Digital Asset Wallet are custodial assets held by Coinbase for your benefit, as described in further detail below.

Paypal:

These Crypto Assets are held apart from PayPal's corporate assets and PayPal will not use these assets for its operating expenses or any other corporate or business purposes, nor will it voluntarily make these Crypto Assets available to its creditors in the event of bankruptcy.

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Interesting Terms and Conditions

Fiat currency and Tokens are fungible with other like fiat currency and Tokens, and, to the extent you are entitled to withdraw or otherwise receive any funds or Tokens, you are entitled to a quantity of fiat currency or Tokens but not any particular fiat currency or Tokens.

Company is not your broker, intermediary, agent, or advisor and has no fiduciary relationship or obligation to you in connection with any Trades or other decisions or activities effected by you using the Services.

Company maintains full custody of the Digital Assets, funds and User data/information which may be turned over to governmental authorities in the event of Company Accounts' suspension/closure arising from fraud investigations, investigations of violation of law or violation of these Terms.

WHERE DO I GO
FROM HERE?

Lego Blocks

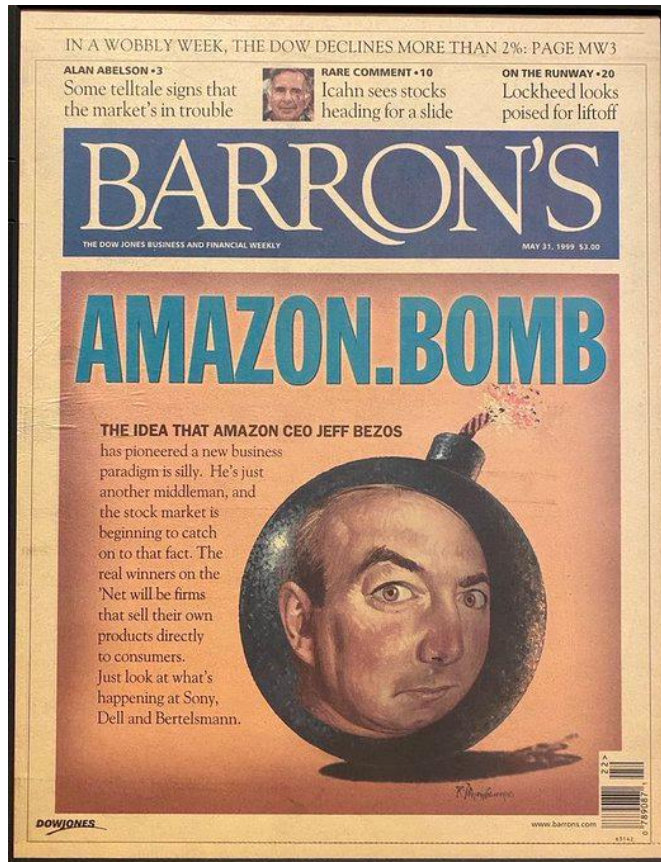


“Blockchain is to Bitcoin, what the internet is to email. A big electronic system, on top of which you can build applications. Currency is just one.”

- These are all LEGO blocks for the next generation of the internet. Don't focus on the use, focus on the function.
 - NFTs
 - Tokens
 - Smart Contracts

And in conclusion

- Uh, this sounds insane.
- Maybe it is. But keep these two things in mind.



"It is the big new thing! You can listen to shows." Bill Gates explains the internet to David Letterman. Letterman: "Have you ever heard of radio?"

Tell me more

Chris Dixon and Naval Ravikant — The Wonders of Web3 And Much More | The Tim Ferriss Show

Watch later Share

THE TIM FERRISS SHOW

CHRIS DIXON & NAVAL RAVIKANT

MORE VIDEOS

0:03 / 2:32:02

CC Settings YouTube

The image shows a YouTube video player interface. At the top left is a circular profile picture of Tim Ferriss and the video title "Chris Dixon and Naval Ravikant — The Wonders of Web3 And Much More | The Tim Ferriss Show". To the right are "Watch later" and "Share" buttons. The main video area features a framed thumbnail on the left with the text "THE TIM FERRISS SHOW" and a photo of Tim Ferriss. On the right is a large graphic with stylized portraits of Chris Dixon and Naval Ravikant and the text "CHRIS DIXON & NAVAL RAVIKANT" in green. Below the video is a "MORE VIDEOS" button and a progress bar showing "0:03 / 2:32:02". At the bottom right are icons for closed captions, settings, the YouTube logo, and a full-screen button.

QUESTIONS AND ANSWERS

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