



## FDIC Strategies Related to Crypto-Asset Risks

October 2023

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Evaluation Report  
Audits, Evaluations, and Cyber

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## NOTICE

Pursuant to Pub. L. 117-263, section 5274, non-governmental organizations and business entities identified in this report have the opportunity to submit a written response for the purpose of clarifying or providing additional context to any specific reference. Comments must be submitted to [comments@fdicoig.gov](mailto:comments@fdicoig.gov) within 30 days of the report publication date as reflected on our public website. Any comments will be appended to this report and posted on our public website. We request that submissions be Section 508 compliant and free from any proprietary or otherwise sensitive information.

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## Executive Summary

### FDIC Strategies Related to Crypto-Asset Risks

According to a September 2022 White House Fact Sheet, millions of people globally, including 16 percent of adult Americans, have purchased crypto assets. The Fact Sheet also stated, crypto assets “present potential opportunities to reinforce the U.S. leadership in the global financial system and remain at the technological frontier.” Executive Order 14067 (March 2022) stated that the U.S. has an interest in responsible financial innovation and expanding access to safe and affordable financial services using crypto assets. The Executive Order also stated that the U.S. has an interest in reducing the cost of domestic and cross-border funds transfers and payments and modernizing its public payment systems, which may be possible through the use of crypto assets.

While crypto assets present many potential opportunities and benefits, they also pose a number of risks to the U.S. financial system. In recent years, the crypto-asset sector has experienced significant volatility. The total market capitalization of crypto assets fluctuated from about \$132 billion in January 2019 to \$3 trillion in November 2021. More concerning, the market capitalization has fallen by 60 percent to \$1.2 trillion as of April 2023. These events highlight various risks that the crypto-asset sector could pose to financial institutions, including liquidity, market, pricing, and consumer protection risks. Financial institutions can be exposed to crypto-asset risks when providing services to crypto-asset companies or engaging in crypto-asset-related activities.

While currently limited, if material exposure of financial institutions to the risks posed by crypto-related activities were to manifest, it may affect the Federal Deposit Insurance Corporation’s (FDIC) mission to maintain stability and public confidence in the Nation’s financial system. The FDIC carries out its mission by, among other things, supervising and examining financial institutions for safety and soundness and consumer protection. The exposure of financial institutions to the risks posed by crypto-related activities presents safety and soundness risks and consumer protection concerns. According to the FDIC, it is taking a deliberate and cautious approach to bank participation in crypto-related activities.

As stated in Executive Order 14067, crypto assets present numerous opportunities to foster innovation and cost savings. The FDIC has an opportunity to take actions to uphold the United States’ interests in the financial sector. However, because crypto assets also pose significant risks to the financial sector, the FDIC should ensure it

can effectively address those risks, and promote safety and soundness and consumer protection.

The objective of our review was to determine whether the FDIC has developed and implemented strategies that address the risks posed by crypto assets.

## Results

The FDIC has started to develop and implement strategies that address the risks posed by crypto assets. However, the Agency has not assessed the significance and potential impact of the risks. Specifically, the FDIC has not yet completed a risk assessment to determine whether the Agency can sufficiently address crypto-asset-related risks through actions such as issuing guidance to supervised institutions. In addition, the FDIC's process for providing supervisory feedback on FDIC-supervised institutions' crypto-related activities is unclear. As part of its process, the FDIC requested financial institutions to provide information pertaining to their crypto-related activities. Additionally, the FDIC issued letters (pause letters), between March 2022 and May 2023, to certain FDIC-supervised financial institutions asking them to pause, or not expand, planned or ongoing crypto-related activities, and provide additional information. However, the FDIC did not (1) establish an expected timeframe for reviewing information and responding to the supervised institutions that received pause letters, and (2) describe what constitutes the end of the review process for supervised institutions that received a pause letter.

Until the FDIC assesses the risks of crypto activities and provides supervised institutions with effective guidance, the FDIC and some FDIC-supervised institutions may not take appropriate actions to address the most significant risks posed by crypto assets. In addition, based on evidence obtained during our evaluation, the FDIC's lack of clear procedures causes uncertainty for supervised institutions in determining the appropriate actions to take. If financial institutions do not receive timely feedback from the FDIC and do not understand what constitutes the end of the FDIC's review process, this uncertainty creates risk that the FDIC will be viewed as not being supportive of financial institutions engaging in crypto-related activities.

## Recommendations

This report contains two recommendations for the FDIC to: (1) establish a plan with timeframes for assessing risks pertaining to crypto-related activities and (2) update

and clarify the supervisory feedback process related to its review of supervised institutions' crypto-related activities.

The FDIC concurred with both report recommendations and proposed corrective actions that were sufficient to address the intent of the recommendations. Therefore, we consider these recommendations to be resolved and open pending completion of the corrective actions. The FDIC plans to complete all corrective actions by January 30, 2024.

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October 17, 2023

**Subject | FDIC Strategies Related to Crypto-Asset Risks**

According to a September 2022 White House Fact Sheet, millions of people globally, including 16 percent of adult Americans, have purchased crypto assets.<sup>1</sup> The Fact Sheet also stated, crypto assets “present potential opportunities to reinforce the U.S. leadership in the global financial system and remain at the technological frontier.” A March 2022 Executive Order stated that the U.S. has an interest in responsible financial innovation and expanding access to safe and affordable financial services using crypto assets.<sup>2</sup> The Executive Order also stated that the U.S. has an interest in reducing the cost of domestic and cross-border funds transfers and payments and modernizing its public payment systems that may be possible through the use of crypto assets.<sup>3</sup>

In March 2022, the U.S. Government Accountability Office (GAO) issued a report that described a number of benefits resulting from crypto assets.<sup>4</sup> According to GAO, cryptocurrencies, a type of crypto asset, are growing as a means of payment by individuals, businesses, and governments around the world. Because cryptocurrencies are digitally based and generally do not depend on intermediaries, they have the potential to reduce user costs. In addition, cryptocurrency users can conduct transactions in a manner that may provide greater privacy for their financial activities.

While crypto assets present many potential opportunities and benefits, they also pose a number of risks to the U.S. financial system. In recent years, the crypto-asset sector has experienced significant volatility. As shown in Figure 1, the total market capitalization of crypto assets fluctuated from about \$132 billion in January 2019 to \$3 trillion in November 2021. More concerning, the market capitalization has fallen by 60 percent to \$1.2 trillion as of April 2023. These events highlight various risks

<sup>1</sup> *FACT SHEET: White House Releases First-Ever Comprehensive Framework for Responsible Development of Digital Assets* (September 16, 2022). By “crypto asset,” the FDIC refers generally to any digital asset implemented using cryptographic techniques.

<sup>2</sup> Executive Order 14067, *Ensuring Responsible Development of Digital Assets* (March 9, 2022). The FDIC has determined that Executive Order 14067 is non-binding on the FDIC. We have included discussion of the Executive Order in this report because it provides context to the Federal Government’s overall approach to crypto assets.

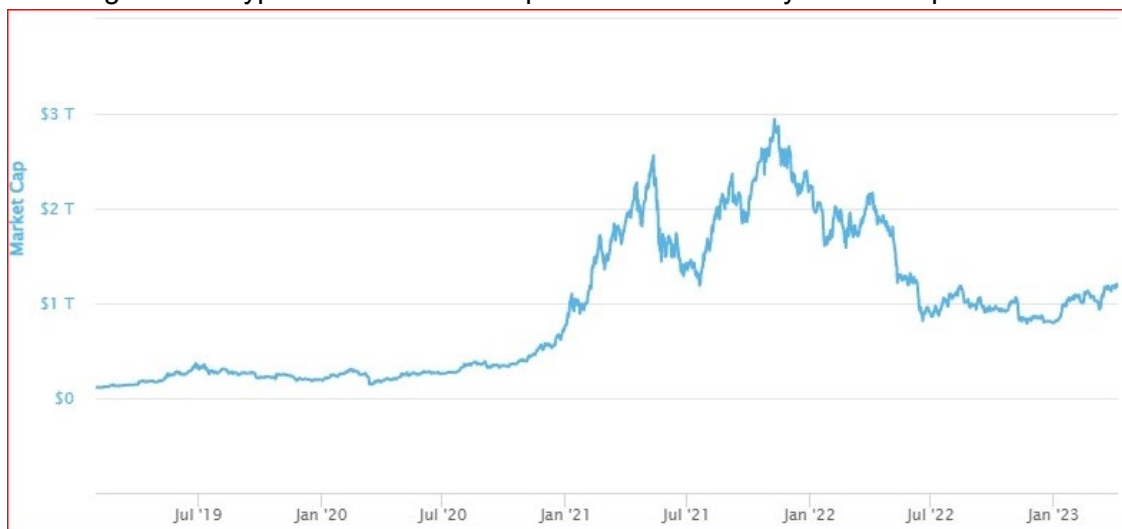
<sup>3</sup> Public payment systems are mechanisms established to facilitate the clearing and settlement of monetary and other financial transactions.

<sup>4</sup> Government Accountability Office, *Blockchain: Emerging Technology Offers Benefits for Some Applications but Faces Challenges*, GAO-22-104625 (March 2022).

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that the crypto-asset sector could pose to financial institutions, including liquidity, market, pricing, and consumer protection risks.<sup>5</sup> Financial institutions can be exposed to crypto-asset risks by providing services to crypto-asset companies or by engaging in crypto-related activities.<sup>6</sup>

Figure 1: Crypto-Asset Market Capitalization—January 2019 to April 2023



Source: CoinMarketCap data as of July 26, 2023

While currently limited, if material exposure of financial institutions to the risks posed by crypto-related activities were to manifest, it may affect the Federal Deposit Insurance Corporation's (FDIC) mission to maintain stability and public confidence in the Nation's financial system. The FDIC carries out its mission by, among other things, supervising and examining financial institutions for safety and soundness and consumer protection. The exposure of financial institutions to the risks posed by crypto-related activities presents safety and soundness risks and consumer protection concerns. According to the FDIC, the Board of Governors of the Federal Reserve System (FRB), and the Office of the Comptroller of the Currency (OCC), financial institutions should be aware of a number of key risks. These risks include:

- Volatility in crypto-asset markets which could potentially impact deposit flows associated with crypto-asset companies.

<sup>5</sup> For purposes of this report, a financial institution means either 1) a state-chartered bank or savings institution that is not a member of the Federal Reserve System or 2) an FDIC-insured depository institution. We use the terms "bank" and "financial institution" interchangeably throughout this report.

<sup>6</sup> In FIL-16-2022, the FDIC defined the term "crypto-related activities" to include acting as crypto-asset custodians; maintaining stablecoin reserves; issuing crypto and other digital assets; acting as market makers or exchange or redemption agents; participating in blockchain- and distributed ledger-based settlement or payment systems, including performing node functions; as well as related activities such as finder activities and lending. The FIL stated this listing is based on known existing or proposed crypto-related activities engaged in by FDIC-supervised institutions, but given the changing nature of this area, other activities may emerge that fall within the scope of this FIL. The inclusion of an activity within this listing should not be interpreted to mean that the activity is permissible for FDIC-supervised institutions.



## FDIC Strategies Related to Crypto-Asset Risks

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- Susceptibility to stablecoin run risk which could potentially impact deposit outflows for banking organizations that hold stablecoin reserves.<sup>7</sup>
- Contagion risk resulting from interconnections among certain crypto-asset participants, including through lending, investing, funding, service, and operational arrangements. These interconnections may also lead to concentration risks for financial institutions with exposures to the crypto-asset sector.

As stated in Executive Order 14067, crypto assets present numerous opportunities to foster innovation and cost savings. The FDIC has an opportunity to take actions to uphold the United States' interests in the financial sector. However, because crypto assets also pose significant risks to the financial sector, the FDIC should ensure it can effectively address those risks, and promote safety and soundness and consumer protection.

The objective of our review was to determine whether the FDIC has developed and implemented strategies that address the risks posed by crypto assets. We conducted this evaluation in accordance with the Council of the Inspectors General on Integrity and Efficiency *Quality Standards for Inspection and Evaluation*. Appendix 1 presents our evaluation objective, scope, and methodology.

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## BACKGROUND

The FDIC achieves its mission, in part, by carrying out a supervision program to promote safe and sound operations at financial institutions and ensure compliance with federal consumer protection laws. Further, the FDIC is responsible for managing resolutions and receiverships. The Division of Risk Management Supervision (RMS) supervises financial institutions to help ensure that they operate in a safe and sound manner; the Division of Depositor and Consumer Protection (DCP) supervises financial institutions to promote compliance with federal consumer protection laws and regulations; and the Divisions of Resolutions and Receiverships (DRR) and Complex Institution Supervision and Resolution close and liquidate failing and failed institutions.

### FDIC Efforts to Address Crypto-Asset Risks

The FDIC developed an initial approach to address crypto-asset risks in 2021. The FDIC's approach, at that time, included a plan to provide clear guidance to the public on: (1) how the FDIC's existing rules and policies apply to crypto assets, (2) the

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<sup>7</sup> The term "stablecoins" refers to a category of cryptocurrencies with mechanisms that are aimed at maintaining a stable value, such as by tying the value of the coin to a specific currency, asset, or pool of assets or by algorithmically controlling supply in response to changes in demand in order to stabilize value.

types of activities that are permissible for financial institutions to engage in, and (3) the FDIC's supervisory expectations for financial institutions that engage in such activities. The approach also included working with the FRB and OCC to coordinate policies for how and under what circumstances financial institutions can engage in activities involving crypto assets.

In 2022, the FDIC shifted to a “bottom up” approach to understanding crypto-asset risks. In March 2022, the FDIC established the Crypto Asset Risks Interdivisional Working Group to focus on this new (and still current) approach to crypto-asset risks.<sup>8</sup> According to the FDIC, its current approach to engaging with supervised institutions as they consider crypto-related activities includes: (1) developing an understanding of supervised institutions' crypto-related activities, (2) providing institutions with case-specific supervisory feedback, and (3) providing broader industry guidance on an interagency basis.

To gain an understanding of the crypto-related activities and the associated risks, on April 7, 2022, the FDIC issued Financial Institution Letter (FIL) 16-2022, *Notification and Supervisory Feedback Procedures for FDIC-Supervised Institutions Engaging in Crypto-Related Activities*. The FIL requested that FDIC-supervised institutions notify the FDIC if they intended to engage in, or were currently engaged in, crypto-related activities. The FIL requested that institutions “provide information necessary to allow the agency to assess the safety and soundness, consumer protection, and financial stability implications of such activities.” Also, the FIL stated that the FDIC will review the notification and information received and request additional information as needed. In addition, the FIL stated that the FDIC would provide relevant supervisory feedback to the FDIC-supervised institution, as appropriate, in a timely manner. The FRB and OCC have issued similar requests to their supervised institutions.<sup>9</sup>

In response to FIL 16-2022, a number of FDIC-supervised institutions provided notifications of their intent to engage in, or engagement in, crypto-related activities. According to FDIC data, as of January 2023, the Agency was aware of 96 FDIC-supervised financial institutions that either had expressed interest or were engaged in crypto-related activities. Some of these activities included crypto-asset-custody services, deposit services, crypto-asset-collateralized lending, and facilitation of customer purchase and sale of crypto assets through a third party.

In June 2022, the Directors of RMS and DCP issued a memorandum to the Regional Directors (RD memo) to facilitate the tracking and review of notifications received in

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<sup>8</sup> The FDIC's Crypto Asset Working Group includes: RMS, DCP, DRR, Division of Insurance and Research, Division of Complex Institution Supervision and Resolution, and the Legal Division.

<sup>9</sup> Federal Reserve SR 22-6 / CA 22-6: *Engagement in Crypto-Asset-Related Activities by Federal Reserve-Supervised Banking Organizations* (August 16, 2022); OCC, Interpretive Letter 1179 (November 18, 2021).

response to the FIL.<sup>10</sup>

(b) (8)

RD memo in October 2022

The FDIC amended the

(b) (8)

According to the FDIC, as part of its review of financial institutions' crypto-related activities, between March 2022 and May 2023, the FDIC sent letters to (b) (8) supervised institutions. The letters asked that the institutions pause from proceeding with planned activities or expanding existing activities and to provide additional information. The FDIC asked these (b) (8) financial institutions to pause their crypto-related activities in order to assess the safety and soundness, consumer protection, and financial stability implications of such activities before providing supervisory feedback. According to the FDIC, as of August 2023, the FDIC had provided (b) (8) of these (b) (8) supervised institutions with supervisory feedback related to their planned or ongoing crypto-related activities.<sup>11</sup>

### FDIC Efforts to Address Crypto-Related Activities of Failed Institutions

The resolution of failing or failed institutions (FFI) engaged in crypto-related activities poses complex challenges to the FDIC. The challenges include the assessment of franchise value, operational considerations, and deposit insurance determinations. As a result, DRR developed a strategy to address these challenges. In January 2021, DRR began developing a Digital Assets Operational Plan to ensure its readiness to respond to and execute on resolution scenarios related to crypto assets.

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<sup>10</sup> Regional Director Memorandum, *Procedures for Reviewing Notifications of Engagement in Crypto-Related Activities* (June 6, 2022, amended October 31, 2022).

<sup>11</sup> According to the FDIC, the Agency has provided (b) (8) supervised institutions with supervisory feedback related to their planned or ongoing crypto-related activities. Only (b) (8) of these (b) (8) institutions had received a pause letter.

In December 2022, DRR completed the first phase of its plan by developing and documenting five known potential use cases.<sup>12</sup> According to DRR, this plan will be a living document, and DRR will update the plan as new digital asset activities, legislative developments, and advances in technology emerge. In addition, DRR entered into a contract for crypto-asset management and liquidation services associated with FFIs.

### **FDIC Efforts to Address Misrepresentations of Deposit Insurance**

A separate, but related issue, is the risk of misrepresentations about FDIC deposit insurance by non-bank entities (such as crypto companies). In 2022, a cryptocurrency company filed for bankruptcy. This company had been misrepresenting to its customers for over a year that the funds it held for customers were insured by the FDIC. In July 2022, the FDIC and FRB issued a joint letter demanding that this firm cease and desist from making such claims. According to the FDIC, between July 2022 and June 2023, the Agency issued 11 additional public advisory letters to non-bank entities that appeared to be making crypto-related misrepresentations about FDIC deposit insurance.<sup>13</sup> These advisory letters demanded that the recipients stop making false and misleading statements regarding FDIC deposit insurance and take immediate action to address these misleading and false statements or to provide documentation that their claims are true and accurate.<sup>14</sup> The FDIC also issued FIL 35-2022 *Advisory to FDIC-Insured Institutions Regarding Deposit Insurance and Dealings with Crypto Companies*, and a *Fact Sheet: What the Public Needs to Know About FDIC Deposit Insurance and Crypto Companies*. FIL 35-2022 and the Fact Sheet provided additional information about deposit insurance coverage and the risks of misrepresentations of FDIC insurance coverage.

The FDIC obtains information on potential deposit insurance misrepresentations through various methods, including monitoring three public portals. DCP monitors two of the portals, which also contain other consumer protection and deposit insurance complaints. The Legal Division created the third portal in July 2022.<sup>15</sup> This third portal is focused on complaints and inquiries related to misrepresentations of deposit insurance. Along with setting up the new portal, the FDIC updated internal

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<sup>12</sup> The five potential use cases include: (1) crypto assets held and owned by the FFI, (2) crypto assets held by the FFI as loan collateral, (3) crypto assets held by the FFI in custody for customers, (4) bank-created stabletoken on a permissioned ledger, and (5) a multibank permissioned payment system.

<sup>13</sup> These 11 letters do not represent all public advisory letters that the FDIC has issued regarding misrepresentations about FDIC deposit insurance. For purposes of this report, we included the number of letters issued to address crypto-related misrepresentations only.

<sup>14</sup> The Federal Deposit Insurance Act prohibits any person from representing or implying that an uninsured deposit is insured or from knowingly misrepresenting the extent and manner in which a deposit liability, obligation, certificate, or share is insured and authorizes the FDIC to enforce these prohibitions. 12 U.S.C.1828(a)(4).

<sup>15</sup> This portal was created as part of the FDIC's final rule on False Advertising, Misrepresentation of Insured Status, and Misuse of the FDIC's Name or Logo, which became effective July 5, 2022. This rule established the process by which the FDIC will identify and investigate conduct that may violate section 18(a)(4) of the FDI Act.

processes for evaluating, escalating, and responding to misrepresentation complaints and inquiries. The Legal Division is the primary group responsible for responding to misrepresentation issues.

### Joint Statements by the Federal Regulatory Agencies

The FDIC, FRB, and OCC jointly issued a number of public statements regarding the risks posed by crypto assets in 2021 and 2023. In November 2021, the FDIC, FRB, and OCC issued a joint statement summarizing their interagency crypto-asset policy sprint initiative. The initiative set forth the agencies' plan to clarify the rules and regulations around how financial institutions can engage in crypto-related activities.<sup>16</sup> In the joint statement, the agencies said that they planned to “provide greater clarity on whether certain activities related to crypto assets conducted by banking organizations are legally permissible.” The agencies also stated that they planned to provide “expectations for safety and soundness, consumer protection, and compliance with existing laws and regulations” related to certain crypto-related activities.<sup>17</sup>

In January and February 2023, the FDIC, FRB, and OCC issued two additional joint statements regarding financial institutions' crypto-related activities.<sup>18</sup> In the January 2023 joint statement, the agencies highlighted key crypto-asset risks for financial institutions' awareness. The joint statement also outlined the agencies' views regarding whether certain crypto-related activities are consistent with safe and sound banking practices. The agencies stated that “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.”<sup>19</sup> Further, the agencies warned that they have “significant safety and soundness concerns with business models that are concentrated in crypto-asset-related activities or have concentrated exposures to the crypto-asset sector.” In the February 2023 joint statement, the agencies discussed the heightened liquidity risks presented by certain funding sources of crypto-asset-sector participants and offered methods to manage such risks. The February 2023 statement also discussed the importance of establishing and maintaining effective risk management and controls commensurate with the level of liquidity risks and provided examples of certain practices.<sup>20</sup>

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<sup>16</sup> *Joint Statement on Crypto-Asset Policy Sprint Initiative and Next Steps* (November 2021).

<sup>17</sup> The joint statement listed these crypto-related activities: (1) Crypto-asset safekeeping and traditional custody services, (2) Ancillary custody services, (3) Facilitation of customer purchases and sales of crypto assets, (4) Loans collateralized by crypto assets, (5) Issuance and distribution of stablecoins, and (6) Activities involving the holding of crypto assets on the balance sheet.

<sup>18</sup> *Joint Statement on Crypto-Asset Risks to Banking Organizations* (January 2023).

<sup>19</sup> Decentralized network generally refers to crypto-asset protocols and platforms that allow for some form of automated peer-to-peer transactions.

<sup>20</sup> *Joint Statement on Liquidity Risks to Banking Organizations Resulting from Crypto-Asset Market Vulnerabilities* (February 2023).

### EVALUATION RESULTS

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We found that the FDIC has started to develop and implement strategies that address the risks posed by crypto assets. For example, the FDIC identified the risks associated with its supervised financial institutions' crypto-related activities and issued FIL-16-2022, which established a strategy to review information financial institutions submitted pertaining to their crypto-related activities and provide supervisory feedback on these activities. However, the Agency has not assessed the significance and potential impact of the risks. Specifically, the FDIC has not yet completed a risk assessment to determine whether the Agency can sufficiently address crypto-asset-related risks through actions such as issuing guidance to supervised institutions. In addition, the FDIC's process for providing supervisory feedback under FIL-16-2022 is unclear. As part of its process, the FDIC issued letters (pause letters) to certain FDIC-supervised financial institutions asking them to pause, or not expand, planned or ongoing crypto-related activities. However, the FDIC did not (1) establish an expected timeframe for reviewing information and responding to the supervised institutions that received pause letters and (2) describe what constitutes the end of the review process for supervised institutions that received a pause letter.

Until the FDIC assesses the risks of crypto activities and provides supervised institutions with effective guidance, the FDIC and some FDIC-supervised institutions may not take appropriate actions to address the most significant risks posed by crypto assets. In addition, based on evidence obtained during our evaluation, the FDIC's lack of clear procedures causes uncertainty for supervised institutions in determining the appropriate actions to take. If financial institutions do not receive timely feedback from the FDIC and do not understand what constitutes the end of the FDIC's review process for paused crypto-related activities, this uncertainty creates risk that the FDIC will be viewed as not being supportive of financial institutions engaging in crypto-related activities.

#### **The FDIC Should Continue Its Efforts to Assess Risks Related to Crypto Assets**

The FDIC has identified numerous risks associated with its supervised financial institutions' crypto-related activities. However, the Agency has not yet assessed the significance and potential impact of these risks through a risk assessment. A risk assessment would enable the FDIC to determine whether the crypto-asset-related risks can be sufficiently addressed as identified in the Crypto Asset Risks Interdivisional Working Group ("Crypto Asset Working Group") Charter.



The Crypto Asset Working Group Charter (May 2022) describes its mission as being “responsible for assessing the safety and soundness, consumer protection, deposit insurance, resolution planning, and financial stability risks associated with crypto-asset-related activities that are, or may be, engaged in by financial institutions.” The Charter further states that the group “shall report out its assessment of these risks, including whether such risks can be sufficiently mitigated, and, as appropriate, provide recommendations for addressing those risks to the relevant officers of the agency.”

The FDIC started to identify risks associated with financial institution crypto-related activities in its draft *Framework for Developing an FDIC Policy View on Digital Assets Potential [Insured Depository Institution] Activity, Assessment Approach, and Potential Policy Issues* (2021 Framework) and the draft *Facilitation Bottom-Up Risk Assessment Framework* (2022 Facilitation Framework) (September 26, 2022). In its 2021 Framework, the FDIC identified potential financial institution crypto-related activities and the Agency’s approach for analyzing risks and developing a policy view. The FDIC used this as a briefing document during a discussion on a 2021 FDIC Digital Assets Performance Goal with the former Chairman. In the 2022 Facilitation Framework, the FDIC identified numerous risks, including consumer protection risks and financial stability risks specifically associated with financial institutions’ crypto-asset-facilitation activities.<sup>21</sup> The FDIC issued joint statements in January and February 2023, along with the FRB and OCC, which identified key crypto-asset risks and heightened liquidity risks presented by certain funding sources of crypto-asset-sector participants. However, the Crypto Asset Working Group has not completed a risk assessment of any of the crypto-related activities, including facilitation activities.

According to the GAO’s *Standards for Internal Control in the Federal Government* (September 2014) (Green Book), “Risk assessment is the identification and analysis of risks related to achieving the defined objectives to form a basis for designing risk responses.” It also states, “Management analyzes the identified risks to estimate their significance...”<sup>22</sup> Furthermore, “Management designs overall risk responses for the analyzed risks based on the significance of the risk and defined risk tolerance.”<sup>23</sup> The Green Book also states that documentation “provides a means to retain organizational knowledge and mitigate the risk of having that knowledge limited to a

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<sup>21</sup> Crypto-asset-facilitation activities are activities whereby a financial institution connects customers and third parties to facilitate the customers’ purchase and sale (trades) of crypto assets.

<sup>22</sup> Green Book 7.06 states Management estimates the significance of the identified risks to assess their effect on achieving the defined objectives at both the entity and transaction levels. Management estimates the significance of a risk by considering the magnitude of impact, likelihood of occurrence, and nature of the risk. Magnitude of impact refers to the likely magnitude of deficiency that could result from the risk and is affected by factors such as the size, pace, and duration of the risk’s impact. Likelihood of occurrence refers to the level of possibility that a risk will occur. The nature of the risk involves factors such as the degree of subjectivity involved with the risk and whether the risk arises from fraud or from complex or unusual transactions.

<sup>23</sup> Green Book 6.08 defines risk tolerance as “the acceptable level of variation in performance relative to the achievement of objectives.”

few personnel, as well as a means to communicate that knowledge as needed to external parties, such as external auditors.”

According to the FDIC, it is taking a deliberate and cautious approach to bank participation in crypto-asset-related activities. However, the FDIC has not yet analyzed the crypto-asset risks and documented its assessment of them. Specifically, the FDIC has not assessed their significance in order to determine the magnitude of impact, likelihood of occurrence, and nature of the risks. Also, the FDIC has not developed mitigation strategies, such as issuing guidance to financial institutions, to ensure that risks are within the defined risk tolerance.

This occurred because the FDIC’s process for assessing and responding to risks related to FDIC-supervised institutions’ crypto-related activities is not mature. In early 2022, the FDIC adopted a new bottom-up approach to develop an understanding of supervised institutions’ crypto-asset-related activities and the associated risks. Since that time, the FDIC has made efforts to address crypto-asset risks, such as issuing two FILs, the RD memo, two interagency joint statements, and a number of public advisory letters to crypto-asset companies. While these efforts are positive and necessary to understanding the risks posed by crypto assets, the FDIC must continue its work to fully understand and address the risks.

If the FDIC does not assess the significance of the risks posed by crypto assets, it might not take appropriate actions to address them. The FDIC should conduct risk assessments as a basis to develop mitigation strategies. Without a risk assessment, the FDIC may not develop and issue effective policies, procedures, and guidance to address these risks.

If the FDIC does not provide its supervised institutions with effective guidance, the FDIC and some FDIC-supervised institutions may not take appropriate actions to address the most significant risks posed by crypto assets. This could impact the FDIC’s mission to promote financial stability. The FDIC promotes financial stability, in part, by ensuring safe and sound financial institution practices and protecting consumers from financial harm. Absent effective guidance, financial institutions may not employ safe and sound practices to mitigate risks while developing innovative strategies and business lines to stay competitive in the financial marketplace.

### **Recommendation**

We recommend that the Crypto Asset Risks Interdivisional Working Group:

1. Establish a plan with timeframes for assessing risks pertaining to crypto-related activities by:
  - a) Continuing to identify and document crypto-asset risks,



- b) Performing and documenting an analysis of the identified risks to estimate their significance, and
- c) Developing and documenting strategies to address crypto-asset risks.

### **The FDIC Should Improve Its Supervisory Feedback Process for Crypto-Related Activities**

The FDIC issued FIL-16-2022 which established a strategy to review information financial institutions submitted pertaining to their crypto-related activities and provide supervisory feedback on these activities. However, the FDIC's process for providing supervisory feedback to FDIC-supervised institutions about their crypto-related activities is unclear. The FDIC asked some financial institutions to pause or refrain from expanding certain crypto-related activities until it completed a review and provided supervisory feedback. Under the FIL, the FDIC was to provide timely, relevant, supervisory feedback. However, the FDIC did not establish an expected timeframe for reviewing the activities and responding to the FDIC-supervised institutions that received a pause letter. Also, the FDIC did not define what constitutes the end of its review process for institutions that received a pause letter. While the FDIC has maintained communication with these institutions, the lack of a clear end to the review process results in an extended pause and uncertainty for some institutions.

According to the FDIC, between March 2022 and May 2023, the FDIC sent letters to (b) (6) supervised institutions as part of its review of the institutions' crypto-related activities. The letters (pause letters) asked that the institutions pause from proceeding with planned activities or expanding existing activities and provide additional information. The pause letters stated that the institutions should provide additional information "in advance of implementation," "pause all crypto asset-related activities," or "not proceed with any crypto-asset activity." The FDIC asked the institutions to pause their activities in order to review the institutions' crypto-related activities before providing supervisory feedback. The activities that institutions provided information on include crypto-asset-custody services, facilitation of customer purchase and sale of crypto assets through a third party, and crypto-asset-collateralized lending. According to the FDIC, as of August 2023, out of the (b) (6) supervised institutions that received a pause letter, the FDIC had only provided (b) (6) institutions with supervisory feedback. (b) (8) supervised institutions have decided not to pursue crypto-related activities or are no longer FDIC-supervised.<sup>24</sup> The remaining (b) (6) have not received any supervisory feedback from the FDIC.

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<sup>24</sup> There are (b) (8) additional supervised institutions that are no longer pursuing crypto activities or are no longer FDIC-supervised, but these (b) (8) institutions are included within the (b) (6) institutions that received supervisory feedback.

### Review Timeframe Not Established

The FDIC did not establish an expected timeframe for reviewing the institutions' activities and responding to the FDIC-supervised institutions that received pause letters. According to FIL 16-2022, "[t]he FDIC will provide relevant supervisory feedback to the FDIC-supervised institution, as appropriate, **in a timely manner**" (emphasis added). The FDIC established procedures for reviewing and responding to notifications under the FIL in an RD memo. The RD memo, however, (b) (8)

[REDACTED] The FDIC pause letters also did not provide the financial institutions with a timeframe for FDIC review of the information nor a timeframe for providing supervisory feedback.

### Review End Process Not Described

FDIC procedures do not describe what constitutes the end of the review process for supervised institutions that received a pause letter. The RD memo states that (b) (8)

[REDACTED] (b) (8) It also states that [REDACTED] (b) (8) (b) (8) (b) (8) An FDIC official described final supervisory feedback as "the final version of the supervisory feedback to be transmitted to the bank." This official further stated the term "does not have a special meaning beyond being the last stage of the internal review process." The FDIC's procedures do not describe the end of the review process and what the final supervisory feedback entails. By not clearly stating or documenting what constitutes the end of the FDIC's review process, the FDIC may be causing confusion for the financial institutions that received a pause letter. For example, when one institution provided information on its planned crypto-related activities to the FDIC, it requested that the FDIC provide its approval of those activities. However, in the pause letter sent to the supervised institution, the FDIC stated that the FIL "does not provide for the issuance of an FDIC non-objection...."<sup>25</sup> The letter requested that the institution "not proceed with planned activities, pending FDIC supervisory feedback." This example demonstrates that the institution may be confused about what would constitute the end of the FDIC's review process.

According to the GAO *Standards for Internal Control in the Federal Government*, "[m]anagement documents in policies... its responsibility for an operational process's objectives and related risks, and control activity design, implementation, and operating effectiveness." Policies may be further defined through day-to-day procedures. These procedures may "include the timing of when a control activity

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<sup>25</sup> A non-objection is when the banking regulatory agency communicates to the institution that it does not object to the activity.

occurs and any follow-up corrective actions to be performed by competent personnel if deficiencies are identified.”

The RD memo did not include an expected timeframe for reviewing a financial institution’s information and responding to an institution that received a pause letter. It also did not describe the end of the review process for these institutions. This occurred because the FDIC’s process for reviewing and responding to information received from FDIC-supervised institutions’ crypto-related activities is not mature. In early 2022, the FDIC adopted a new bottom-up approach to understand crypto-asset risks through use cases. The FDIC is continuing this effort in 2023.

Based on evidence obtained during our evaluation, including our independent evaluation of the FDIC’s process, discussions with FDIC personnel, and statements made by individuals in the banking and crypto-asset industries, we determined that the FDIC’s lack of clear procedures and timely feedback regarding crypto-asset activities causes uncertainty for supervised institutions in determining the appropriate actions to take. While the FDIC has maintained communication with these institutions, the lack of a clear end to the review process results in an extended pause and uncertainty for some institutions. The uncertainty in the process creates risk that the FDIC will be viewed as not being supportive of financial institutions participating in crypto activities. Such a view leads to risk that the FDIC would inadvertently limit financial institution innovation and growth in the crypto space. This view has also been expressed by individuals in the banking and crypto-asset industries alleging that financial regulators have been cutting off crypto firms from accessing the banking system and stifling innovation.

### **Recommendation**

We recommend that the Director of the Division of Risk Management Supervision:

2. Update and clarify the supervisory feedback process to (a) establish an expected timeframe for reviewing information and responding to FDIC-supervised institutions pursuant to the Financial Institution Letter and (b) describe what constitutes the completion of its review of its supervised institutions’ crypto-related activities.

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## **FDIC COMMENTS AND OIG EVALUATION**

The FDIC’s Director of RMS provided a written response, dated September 27, 2023, to a draft of this report. The response is presented in its entirety in Appendix 3.

## FDIC Strategies Related to Crypto-Asset Risks

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In its response, the FDIC concurred with both report recommendations. The FDIC's proposed corrective actions were sufficient to address the intent of both recommendations, and the FDIC plans to complete corrective actions for these recommendations by January 30, 2024. We consider both recommendations to be resolved.

Both recommendations in this report will remain open until we confirm that corrective actions have been completed and the actions are responsive. A summary of the FDIC's corrective actions is contained in Appendix 4.

## Objective

The evaluation objective was to determine whether the FDIC has developed and implemented strategies that address the risks posed by crypto assets.

We conducted this evaluation from June 2022 through June 2023 in accordance with the Council of the Inspectors General on Integrity and Efficiency *Quality Standards for Inspection and Evaluation* (issued December 2020).

## Scope and Methodology

The scope of our evaluation focused on the FDIC's efforts to develop and implement strategies that address crypto-asset risks. To obtain an understanding of the FDIC's efforts, we interviewed FDIC officials and staff from the Crypto Asset Risks Interdivisional Working Group, the Division of Risk Management Supervision, the Division of Depositor and Consumer Protection, the Division of Resolutions and Receiverships, the Division of Complex Institution Supervision and Resolution, and the Legal Division. Additionally, we reviewed the following relevant FDIC documents:

- Digital Assets Operational Plan (Revised December 2022);
- Division of Resolutions and Receiverships contract with a third party for crypto-asset services to support resolution and receivership activities (effective September 2021);
- *Draft Framework for Developing an FDIC Policy View on Digital Assets Potential [Insured Depository Institution] Activity, Assessment Approach, and Potential Policy Issues* (2021);
- *Draft Facilitation Bottom-Up Risk Assessment Framework* (September 26, 2022);
- FDIC public advisory letters issued to companies that appeared to be making crypto-related false or misleading representations about FDIC deposit insurance (Letters issued between July 2022 and June 2023);
- FDIC letters issued to certain FDIC-supervised institutions asking for additional information on planned or ongoing crypto-related activities, and pause from proceeding with planned activities or expanding existing activities (Letters issued between March 2022 and May 2023);
- FDIC's Crypto-Related Activity Tracking System data (as of January 2023);
- Financial Institution Letter 16-2022, *Notification and Supervisory Feedback Procedures for FDIC-Supervised Institutions Engaging in Crypto-Related Activities* (April 7, 2022);
- Financial Institution Letter 35-2022 *Advisory to FDIC-Insured Institutions Regarding Deposit Insurance and Dealings with Crypto Companies*, and *Fact*

- Sheet: What the Public Needs to Know About FDIC Deposit Insurance and Crypto Companies* (July 29, 2022);
- Regional Director Memorandum, *Procedures for Reviewing Notifications of Engagement in Crypto-Related Activities* (June 6, 2022, amended October 31, 2022);
  - *Remarks by FDIC Chairman Jelena McWilliams at Money 20/20* (October 2021);
  - *Remarks by FDIC Acting Chairman Martin J. Gruenberg at the Brookings Institution on The Prudential Regulation of Crypto-Assets* (October 2022);
  - The Crypto Asset Risks Interdivisional Working Group Charter (May 2022); and
  - The Crypto Asset Risks Interdivisional Working Group minutes (April 2022 through February 2023).

We also reviewed joint statements issued by the FDIC, OCC, and FRB: *Joint Statement on Crypto-Asset Policy Sprint Initiative and Next Steps* (November 23, 2021); *Joint Statement on Crypto-Asset Risks to Banking Organizations* (January 3, 2023); and *Joint Statement on Liquidity Risks to Banking Organizations Resulting from Crypto-Asset Market Vulnerabilities* (February 23, 2023).

We further reviewed Executive Order No. 14067, *Executive Order on Ensuring Responsible Development of Digital Assets* (March 9, 2022) and the associated reports directed by the Executive Order. Moreover, we reviewed the GAO Report, *Emerging Technology Offers Benefits for Some Applications but Faces Challenges*, GAO-22-104625 (March 2022).

To gain an understanding of the FDIC's supervisory actions provided to its supervised institutions regarding their crypto-related activities, we selected a sample of nine institutions engaged in or planning to engage in crypto-related activities. We selected the sample from the FDIC's Crypto-Related Activity Tracking System (as of October 2022). For this sample, we reviewed the FDIC's examination or visitation documentation, correspondence, and letters issued as of January 2023.

In addition, we reviewed FRB's *SR 22-6 / CA 22-6: Engagement in Crypto-Asset-Related Activities by Federal Reserve-Supervised Banking Organizations* (August 16, 2022) and the OCC Interpretive Letter 1179 (November 18, 2021). We further interviewed these two Federal banking regulatory agencies to obtain information on their efforts in identifying and addressing risks associated with their supervised institutions' crypto-related activities.

We applied internal control principles promulgated by the GAO (the Green Book) to guide our work when appropriate. For example, we considered internal controls standards, and activities, related to (1) identifying, analyzing, and responding to risks and (2) implementing control activities such as documentation of responsibilities through policies.

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Crypto Asset Working Group	Crypto Asset Risks Interdivisional Working Group
DCP	Division of Depositor and Consumer Protection
DRR	Division of Resolutions and Receiverships
FDIC	Federal Deposit Insurance Corporation
FFI	Failing or failed institutions
FIL	Financial Institution Letter
FRB	Board of Governors of the Federal Reserve System
GAO	United States Government Accountability Office
OCC	Office of the Comptroller of the Currency
OIG	Office of Inspector General
RD memo	Regional Director memorandum
RMS	Division of Risk Management Supervision
WO	Washington Office



**Federal Deposit Insurance Corporation**  
550 17th Street NW, Washington, D.C. 20429-9990

Division of Risk Management Supervision

**TO:** Terry L. Gibson  
Assistant Inspector General, Audits, Evaluations, and Cyber  
Office of Inspector General

**FROM:** Doreen R. Eberley   
Director, Division of Risk Management Supervision

**DATE:** September 27, 2023

**RE:** Response to Draft Evaluation Report  
FDIC Strategies Related to Crypto Asset Risks (No. 2022-007)

#### **BACKGROUND**

The FDIC has completed its review of the Office of Inspector General's (OIG) draft evaluation report entitled, *FDIC Strategies Related to Crypto Asset Risks (No. 2022-007)*, provided on August 31, 2023 ("draft report"). FDIC concurs with the OIG's two recommendations, and provides a response to the recommendations below, including a summary of management's planned actions.

#### **FDIC'S APPROACH TO ENGAGING WITH BANKS ON CRYPTO-RELATED ACTIVITIES**

From the perspective of bank regulators, before banks engage in new or rapidly evolving activities, such as those related to the crypto-asset arena, it is important that they understand that the activity is permissible under applicable laws and regulations; that the activity can be conducted in a safe and sound manner; that the bank has put in place appropriate measures and controls to identify and manage the novel risks associated with those activities; and that the bank complies with all relevant laws and regulations, including those related to anti-money laundering/countering the financing of terrorism, and consumer protection. As the OIG points out in its report, the crypto-asset sector has proven to be highly volatile and has exhibited a number of risks to financial stability and institutions, including contagion risks due to high levels of interconnectedness within the sector.

As the crypto-asset sector grew rapidly in 2021 and early 2022, banking regulators recognized that there was also an increasing interest by some banks to engage in crypto-asset activities. The FDIC had been generally aware of the interest in crypto-asset related activities through its normal supervision process, but as interest accelerated, the FDIC recognized that there was insufficient information on which banks had been engaging in, or were interested in engaging in, crypto-related activities. To address that gap, and in consideration of various safety and soundness, consumer protection, and financial stability concerns, the FDIC issued Financial Institution Letter, *Notification of Engaging in Crypto-Related Activities* (FIL-16-2022) in April



2022, asking FDIC-supervised institutions to notify the FDIC of the crypto-related activities in which they were engaged or intended to engage.<sup>1</sup> FIL-16-2022 described some of the crypto-related risks about which the FDIC was concerned and indicated that the FDIC would provide supervisory feedback related to the planned or ongoing activities.

Subsequently, significant events, bankruptcies, and volatility in the crypto-asset industry exposed a number of vulnerabilities in the crypto-asset sector. For example, the May 2022 Terra USD collapse; the July 2022 bankruptcies of Three Arrows Capital (3AC), Voyager, and Celsius; the November 2022 FTX bankruptcy; and the significant price decline of Bitcoin (BTC) in 2022 from over \$47,000 to less than \$17,000.<sup>2</sup> Some of these disruptions involved consumers being unable to access their funds. In addition, it became evident that false and misleading statements, either direct or implied, by crypto-asset entities concerning the availability of deposit insurance for a given crypto-asset product violated the law, and could give consumers the impression that crypto-asset products are protected by FDIC deposit insurance, when they are not.<sup>3</sup>

In July 2022, the FDIC issued a fact sheet for consumers regarding deposit insurance<sup>4</sup> and an advisory reminding insured banks of the risks that could arise related to misrepresentations of deposit insurance.<sup>5</sup> While not specific to crypto-assets, the FDIC Board of Directors approved a final rule on May 17, 2022, to help address instances in which firms misrepresent the availability of deposit insurance in violation of the law.<sup>6</sup> Also, on December 13, 2022, the FDIC Board of Directors issued for public comment a proposed rule to amend its regulations on use of the official FDIC sign and to clarify the FDIC regulation regarding misrepresentations of deposit insurance. This proposed rule also adds crypto-asset to the definition of non-deposit product.<sup>7</sup> The volatility in the crypto-asset sector continued as 2022 unfolded, including a rapid deterioration in and ultimate bankruptcy of a large crypto-asset firm.<sup>8</sup>

The banking regulators had been observing and discussing the risks posed by the crypto-asset sector, and determined to issue interagency guidance regarding those risks. In January 2023, the FDIC, the Board of Governors of the Federal Reserve (Federal Reserve), and the Office of the Comptroller of the Currency (OCC) released a joint statement on crypto-asset risks to banking organizations (see FIL-01-2023, *Joint Statement on Crypto-Asset Risks to Banking Organizations*, issued January 5, 2023).<sup>9</sup> The statement describes the risks to banking

<sup>1</sup> See <https://www.fdic.gov/news/financial-institution-letters/2022/fil22016.html>

<sup>2</sup> See, for example,

<https://www.washingtonpost.com/business/2022/07/06/voyager-bankruptcy-three-arrows/> and <https://www.washingtonpost.com/business/2022/07/13/crypto-bankruptcy-celsius-depositors/> and <https://www.nytimes.com/2022/11/11/business/ftx-bankruptcy.html> and <https://coinmarketcap.com/currencies/bitcoin/>

<sup>3</sup> See <https://www.fdic.gov/news/press-releases/2022/pr22060.html>

<sup>4</sup> See <https://www.fdic.gov/news/press-releases/2022/pr22058.html>

<sup>5</sup> See <https://www.fdic.gov/news/financial-institution-letters/2022/fil22035.html>

<sup>6</sup> See <https://www.fdic.gov/news/financial-institution-letters/2022/fil22021.html>

<sup>7</sup> See <https://www.fdic.gov/news/financial-institution-letters/2022/fil22052.html>

<sup>8</sup> See, for example, <https://www.nytimes.com/2022/11/11/business/ftx-bankruptcy.html> and <https://www.wsj.com/articles/crypto-crisis-a-timeline-of-key-events-11675519887>

<sup>9</sup> See <https://www.fdic.gov/news/financial-institution-letters/2023/fil23001.html>

organizations and reminds banking organizations that they should ensure that crypto-asset-related activities can be performed in a safe and sound manner, are legally permissible, and comply with applicable laws and regulations, including those designed to protect consumers.

Also, in February 2023, the FDIC, Federal Reserve, and OCC issued a *Joint Statement on Liquidity Risks to Banking Organizations Resulting from Crypto-Asset Market Vulnerabilities* (see FIL-08-2023, issued on February 23, 2023).<sup>10</sup> The statement highlights key liquidity risks associated with certain sources of funding from crypto-asset-related entities that banking organizations should be aware of. The statement reminds banking organizations to apply existing risk management principles and provides examples of practices that could be effective. The agencies also continue to emphasize that banking organizations are neither prohibited nor discouraged from providing banking services to customers of any specific class or type, as permitted by law or regulation.<sup>11</sup>

The FDIC has actively engaged with institutions that have advised the FDIC of their activities or plans pursuant to FIL-16-2022. In what appears to be a product of changing market conditions (e.g., crypto-asset firm bankruptcies and disruptions described above, challenging macroeconomic conditions, crypto-asset service providers exiting certain business lines), a number of FDIC-supervised institutions have provided updates on previously planned activities and subsequently notified the FDIC that they no longer plan to pursue crypto-related activities. The majority of banks that received pause letters have notified the FDIC that they are no longer actively pursuing crypto-related activity.<sup>12</sup>

#### CONTEXT REGARDING FDIC ENTERPRISE RISK MANAGEMENT

The FDIC carries out its mission by, among other things, supervising and examining financial institutions for safety and soundness and consumer protection. As part of its Enterprise Risk Management (ERM) function, the FDIC maintains an enterprise-wide Risk Inventory, which is a comprehensive, detailed list of risks that could hamper the FDIC's ability to achieve its goals and objectives. The risk attributes captured in the Risk Inventory include all the components from the GAO Standards for Internal Control in the Federal Government (Green Book) related to risk assessments that are outlined in the OIG draft evaluation report.

The Green Book outlines that a risk assessment "assesses the risk facing the entity as it seeks to achieve its objectives."<sup>13</sup> The risk attributes captured in the Risk Inventory include: identifying the risk, existing controls to mitigate the risk, impact, likelihood, residual risk, and planned mitigations, among other things. The FDIC has identified risks related to staying abreast of

<sup>10</sup> See <https://www.fdic.gov/news/financial-institution-letters/2023/fil23008.html>

<sup>11</sup> See also, FIL 5-2015, *Statement on Providing Banking Services*, issued January 28, 2015.

<sup>12</sup> In the draft report's discussion of banks that received pause letters, the draft report states that some banks have not received any supervisory feedback. In those instances, banks are either no longer actively pursuing crypto-related activity or banks have: not provided information requested by the FDIC; materially revised the proposed activities and the FDIC has requested updated information; or the proposed activities are broad, complex, and significant (for which FDIC staff are actively working on providing supervisory feedback).

<sup>13</sup> See GAO-14-704G Federal Internal Control Standards, page 7.

industry trends and emerging technology, as well as ongoing efforts related to crypto-assets as controls for those risks.

**FDIC MANAGEMENT RESPONSE TO RECOMMENDATIONS**

FDIC concurs with the recommendations.

**Recommendation 1:** OIG recommends that the Crypto Asset Risks Interdivisional Working Group:

1. Establish a plan with timeframes for assessing risks pertaining to crypto-related activities by:
  - a) Continuing to identify and document crypto-asset risks,
  - b) Performing and documenting an analysis of the identified risks to estimate their significance, and
  - c) Developing and documenting strategies to address crypto-asset risks.

**Planned Action:** The FDIC concurs with this recommendation. The FDIC will utilize the ERM program to continue to identify and document risks that may face the FDIC in achieving its mission associated with supervising banks pursuing crypto-related activities, including the significance of those risks, and as appropriate, will identify any additional supervisory strategies to encourage bank management to appropriately manage risks to the bank.

**Estimated Completion Date:** The divisions that are members of the Interdivisional Working will provide a memorandum to the Chief Risk Officer documenting the risk assessment by January 30, 2024.

**Recommendation 2:** OIG recommends that the Director of the Division of Risk Management Supervision (RMS): Update and clarify the supervisory feedback process to (a) establish an expected timeframe for reviewing information and responding to FDIC-supervised institutions pursuant to the Financial Institution Letter and (b) describe what constitutes the completion of its review of its supervised institutions' crypto-related activities.

**Planned Action:** The FDIC concurs with this recommendation. The RMS Director, in coordination with the Director of the Division of Depositor and Consumer Protection, and in consultation with the Legal Division as appropriate, will update joint internal processes to include instructions for establishing expected timeframes for: 1) reviewing additional information after it is requested and received by the FDIC, and 2) responding to FDIC-supervised institutions after such date that the FDIC determines sufficient information has been received. Those instructions may allow for consideration of factors, such as the complexity of the activities or proposed activities, when establishing expected timeframes. In addition, the FDIC will update joint internal processes to outline expectations for communicating to an institution what constitutes the completion of the case-specific crypto-related activity review process.

*Estimated Completion Date:* Internal processes will be updated via a joint regional director memorandum that will be issued by January 30, 2024.

This table presents management's response to the recommendations in the report and the status of the recommendations as of the date of report issuance.

Rec. No.	Corrective Action: Taken or Planned	Expected Completion Date	Monetary Benefits	Resolved: <sup>a</sup> Yes or No	Open or Closed <sup>b</sup>
1	The FDIC will utilize the ERM program to continue to identify and document risks that may face the FDIC in achieving its mission associated with supervising banks pursuing crypto-related activities, including the significance of those risks, and as appropriate, will identify any additional supervisory strategies to encourage bank management to appropriately manage risks to the bank.	January 30, 2024	\$0	Yes	Open
2	The RMS Director, in coordination with the Director of the Division of Depositor and Consumer Protection, and in consultation with the Legal Division as appropriate, will update joint internal processes to include instructions for establishing expected timeframes for: 1) reviewing additional information after it is requested and received by the FDIC, and 2) responding to FDIC-supervised institutions after such date that the FDIC determines sufficient information has been received. Those instructions may allow for consideration of factors, such as the complexity of the activities or proposed activities, when establishing expected timeframes. In addition, the FDIC will update joint internal processes to outline expectations for communicating to an institution what constitutes the completion of the case-specific crypto-related activity review process.	January 30, 2024	\$0	Yes	Open

<sup>a</sup> Recommendations are resolved when —

1. Management concurs with the recommendation, and the OIG agrees the planned corrective action is consistent with the recommendation.
2. Management does not concur or partially concurs with the recommendation, but the OIG agrees that the proposed corrective action meets the intent of the recommendation.
3. For recommendations that include monetary benefits, management agrees to the full amount of OIG monetary benefits or provides an alternative amount and the OIG agrees with that amount.

<sup>b</sup> Recommendations will be closed when the OIG confirms that corrective actions have been completed and are responsive.





Federal Deposit Insurance Corporation  
Office of Inspector General

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3501 Fairfax Drive  
Room VS-E-9068  
Arlington, VA 22226

(703) 562-2035

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