Crypto-Related Funding Risk

Cite

OCC, FRB, FDIC; Joint Statement on Liquidity Risks to Banking Organizations Resulting from Crypto-Asset Market Vulnerabilities

Recommended Distribution:

CFO, Treasurer, Asset/Liability Management, Risk Management, Policy, Legal, Government Relations

Website

https://www.occ.gov/news-issuances/news-releases/2023/nr-ia-2023-18a.pdf

Impact Assessment

- Banking organizations will need to take considerable care to ensure that services associated with cryptoasset entities, including those issuing stablecoins, do not create funding dependencies or other risks.
- These cautions are inherent in current liquidity-risk management requirements, but the new statement puts the industry on notice to ensure compliance if cryptoasset relationships continue or commence.
- Material inter-connection with cryptoasset firms will be still more difficult, reducing risk but perhaps also hindering innovation.

Overview

In the wake of revelations by Silvergate and other banks about significant deposit exposures to cryptoasset entities,[1] federal banking agencies have issued a statement about the need to manage liquidity risk associated with cryptoassets. The agencies are at pains to emphasize that nothing in this statement is new, thereby retaining flexibility to take action against banks with prior, problematic exposures. Although nothing in the statement bars doing business with cryptoasset firms, it will discourage some banks from doing so even as it reminds others to avoid stresses recently seen at several banks.

Impact

As with prior agency actions,[2] nothing in this statement expressly sanctions any form of cryptoasset exposure. Indeed, likely reflecting GOP criticism that the

1 See *Client Report* **CRYPTO38**, January 11, 2023.

2 See for example: **CRYPTO22**, *Financial Services Management*, December 1, 2021; and **CRYPTO31**, *Financial Services Management*, August 22, 2022.

banking agencies cannot and should not sanction banks doing business with legal enterprises, the statement emphasizes that banks are neither prohibited nor discouraged from doing business with duly-authorized entities (crypto presumably included). However, the statement is nonetheless likely to ensure that banking organizations doing business with cryptoasset companies do so with heightened care, reviewing their exposures, with many likely to continue the exodus from this sector already evident at banks that only recently had considerable dealings with cryptoasset entities.

Agency concerns center on the volatility of deposits related both to cryptoasset companies and their end-users and the extent to which cryptoasset companies may misrepresent or inaccurately portray end-user deposit-insurance coverage, an issue of broader concern to the FDIC across the spectrum of fintech and crypto providers.[3] The agencies also fear deposit-dependence when banks have large funding bases related to inter-connected or correlated crypto entities.

What's Next

This guidance was issued on February 23, effective immediately.

Analysis

The statement details effective risk-management standards largely drawn from the agencies 2010 liquidity-risk policy.[4] These could include:

- understanding key product features and resulting volatility;
- assessing inter-connectedness and/or concentrations;
- incorporating crypto-related funding exposures in contingency planning and other asset/liability management protocols;
- performing robust due diligence and monitoring; and
- complying with laws and rule detailed in the statement.

[3] See **DEPOSITINSURANCE117**, *Financial Services Management*, January 3, 2023.

[4] See **LIQUIDITY6**, *Financial Services Management*, March 24, 2010.