

Digital Assets & Bank Participation

New Mexico Bankers Association Annual Convention

September 16, 2022



Agenda

1. Digital Asset Framework
2. Examples of Bank Activities
3. Policy and Regulator Activity

Digital Asset Framework

Digital Assets

“Traditional”
Cryptocurrency

Stablecoin

CBDC

NFT



USD Coin tether



jack @jack

just setting up my twttr

8:50 PM · Mar 21, 2006

161.2K 129.6K Copy

Blockchain vs. Cryptocurrency

- **A shared, immutable ledger that facilitates the process of recording transactions and tracking assets in a network**
- How can it be used in banking? Blockchain is a permanent, transparent, unalterable record, which gives rise to applications other than as a means of payment
 - For example, **digitizing real estate assets**, placing deed, title, valuation, and operating metrics on chain and increasing the transparency and accessibility of that data to investors
 - Executing **mortgage transactions**, including transfer of ownership on chain
 - **Loan securitization**: securitization involves a level of detailed and accurate information about underlying assets that blockchain technology is well suited to provide

Cryptocurrency Observations

1. Genie is out of the bottle,
2. Intermediaries are critical,
3. Serious questions remain,
4. Banks see opportunity and risk.

What's happening today?

- Cryptocurrencies have lost over 2/3rd of their value since peaking in November 2021, falling from about \$3T to less than \$1T today
- Terra/Luna an algorithmic stablecoin pair crashed causing a cascade of losses and leading to Chapter 11 bankruptcy filings for at least two crypto lenders (Voyager Digital and Celsius) and one hedge fund (Three Arrows Capital)
- The overall value lost and revelations of highly leveraged, risky structures has further spotlighted the need for regulation in the market

“Traditional” Cryptocurrency

Thousands of coins, but market cap is highly concentrated

Tue 06 Sep 2022, 20:00:00

- BTC: 36.34%
- ETH: 18.96%
- USDT: 6.81%
- USDC: 5.2%
- BNB: 4.34%
- BUSD: 1.99%
- XRP: 1.61%
- ADA: 1.58%
- SOL: 1.09%
- DOGE: 0.79%
- Others: 21.29%

Highly price volatile












































BTC price is down ~70% from Nov 2021 high



Potential Bank Activities

- Business banking
- Custody (holding)
- Trading (buying & selling)
- Crypto rewards
- Lending against crypto collateral
- Issuing stablecoin
- Transacting in stablecoin

Fintechs Enabling Crypto for Banks

	Custody	Allow customers to invest in and store crypto assets	      
	KYB / KYT / AML	Understand the flow of funds and know the parties involved in all transactions touching digital assets	   
	Regulatory / Compliance	Maintain regulatory and compliance standards on-par with traditional banking activities	
	Payments	Facilitate faster and cheaper payments on payment rails powered by the blockchain	 
	Execution	Offer instantaneous (T+0), trustless settlement through the blockchain	   
	Financing	Use blockchain technology to facilitate lending products and improve processes	     
	Servicing	Leverage distributed ledgers to maintain accurate accounts and service outstanding loans	     
	Banking	Offer business banking services to crypto companies	   

NYDIG facilitates crypto custody



- Enables user-friendly access to buy/sell/hold bitcoin through banks
- Regulatory posture
 - Finder authority
 - Direct agreements with end user
 - Bank never touches bitcoin
- Core and digital front-end integrated
- No channel conflict

[Why ABA invested in NYDIG](#)

The screenshots illustrate the user interface for NYDIG's crypto custody service. The first screenshot shows a user named Kiara with a Bitcoin account value of \$621.50 (0.01093376 BTC). The second screenshot shows the Bitcoin account value and recent transactions. The third screenshot shows the Bitcoin account details and transaction history.

Bank Account	Available Balance
Checking ****3081	\$9,749.23
Savings ****4650	\$12,301.43

Transaction	Amount	Time
Bought Bitcoin (PI)	+0.00173286 BTC	02/02/2021 08:32pm ET
Bought Bitcoin	+0.00346573 BTC	02/01/2021 10:17am ET
Bought Bitcoin	+0.00554517 BTC	01/30/2021 08:19pm ET

Screens are for illustrative purposes only and do not reflect information for any specific transaction.



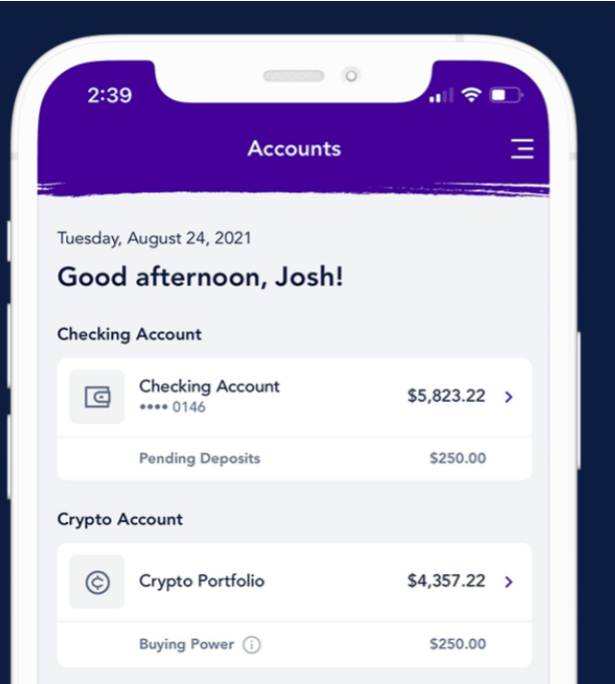
Vast Bank custodies crypto assets directly

Vast Crypto Banking

We've taken the complexity and anxiety out of owning crypto.

Vast Bank is the first nationally chartered U.S. bank that allows you to buy, sell, and hold cryptocurrency assets through your mobile banking app.

Start building your crypto portfolio today!



- Vast is the custodian of the customer's crypto assets
- Partnered with Coinbase and SAP
- Separate from legacy banking app
- 12 coins available

Quontic offers Bitcoin Rewards Checking

- On a daily basis, 1.5% of each Qualified Point of Sale (POS) purchase with your Quontic debit card will ***accrue in US dollars and then be used to purchase Bitcoin on your behalf***
- ***Each daily Bitcoin purchase will be added to your balance in your NYDIG account*** until you decide to redeem it



Accepting Crypto as Collateral

- BankProv offers deposit and lending services to crypto businesses

We're pushing our full-service offering for the **cryptocurrency** community to the next level. We believe crypto-related businesses should be afforded the same access and right to traditional financing tools. At BankProv, we're working alongside some of the most innovative companies to deliver crypto backed loans to address the market need for accessible USD for crypto-heavy borrowers. Get access to secure **funding backed by Ether** or Bitcoin to provide expansion on your business' operations through our specialty lending solutions.

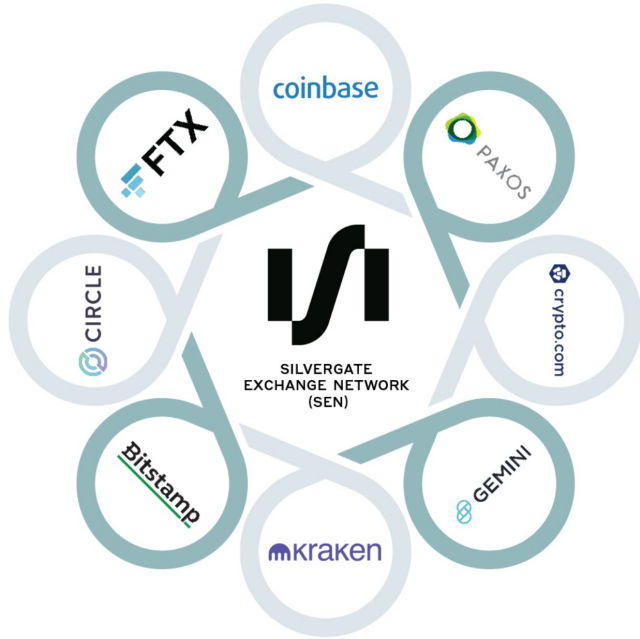
Accepting Crypto as Collateral

"We recently extended a secured lending facility where *we lent fiat collateralized on BTC*; BTC being owned by the borrower," a Goldman spokeswoman told CoinDesk in an email. "The interesting piece for us was the structure and the 24-7-365 day risk management."



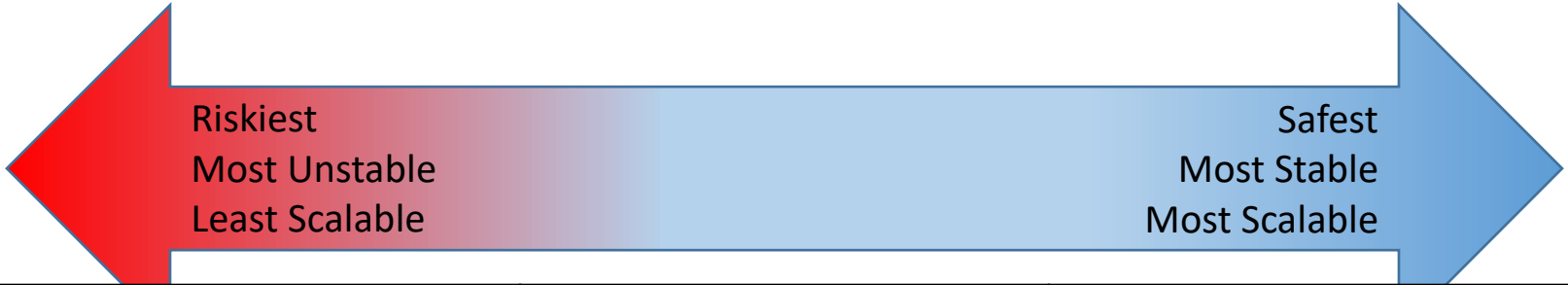
The screenshot shows the CoinDesk website interface. At the top, the CoinDesk logo is visible, along with navigation links for 'Layer 2' and 'Newsletters'. Below the logo, there is a horizontal menu with categories: Business, Tech, Policy, Indices, TV & Videos, Podcasts, Crypto Explainer+, Events, Research, About, and Sponsored Content. A dark navigation bar below the menu displays market data for various cryptocurrencies: XRP (\$0.518332, -3.86%), Terra (\$53.47, -17.16%), Solana (\$67.85, -10.08%), Crypto.com (\$0.220571, -43.90%), and Cardano (\$0.650127, -). The main content area features a 'Business' section with a green heading, followed by the article title 'Goldman Sachs Makes Its First Bitcoin-Backed Loan'. The article text states: 'The global investment bank allowed a borrower to use the cryptocurrency as collateral for a cash loan.' Below the text, it is attributed to 'By Brandy Betz' and includes timestamps: 'Apr 28, 2022 at 4:41 p.m. EDT' and 'Updated Apr 28, 2022 at 5:33 p.m. EDT'. At the bottom of the article, there is a partial image of a blue flag with the word 'Goldman' visible.

Funding solutions



- The Silvergate Exchange Network (SEN) enables digital currency and institutional investor clients to send U.S. dollars and euros 24/7/365 between their Silvergate accounts and the accounts of other Silvergate clients
- ~1,400 clients, including exchanges, family offices, and crypto companies, are now on the network
- Dollar-based volume on the network has been rising steadily, hitting \$790 billion last year in total

Stablecoin



Algorithmic Stablecoin	Asset-backed Stablecoin	Tokenized Deposit / Bank-issued Stablecoin
TerraUSD (UST) Magic Internet Money (MIM) Frax (FRAX) Neutrino USD (USDN)	Tether's USDT Circle's USDC Binance's BUSD Paxos USDP Gemini's GUSD	USDF JPMC Coin Tokenized Deposits

How stable?

TerraUSD to USD

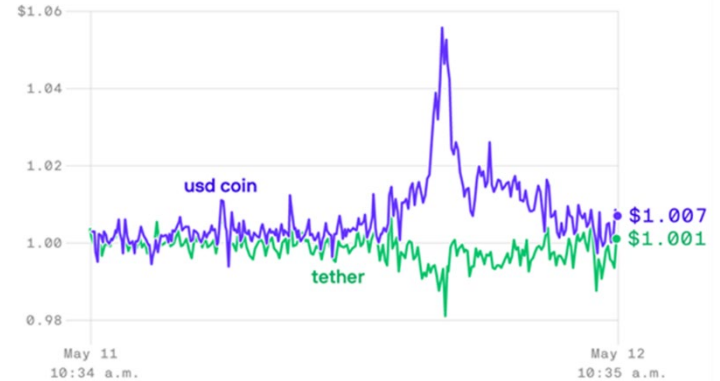
TerraUSD to USD Chart



Tether and USDC

Prices of tether and usd coin

May 11 to May 12, 2022



Bank-issued Stablecoins



CoinDesk

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Ethereum	\$3,299.28	+0.56%
XRP	\$0.769609	+0.07%
Solana	\$148.98	-2.07%
Terra	\$80.94	+0.16%

Business

US Banks Form Group to Offer USDF Stablecoin

Founding members of the USDF Consortium include New York Community Bank, FirstBank and Sterling National Bank.

By Jamie Crawley · Jan 12, 2022 at 8:34 a.m. EST · Updated Jan 13, 2022 at 11:29 a.m. EST ·



Ledger Insights

Blockchain for business

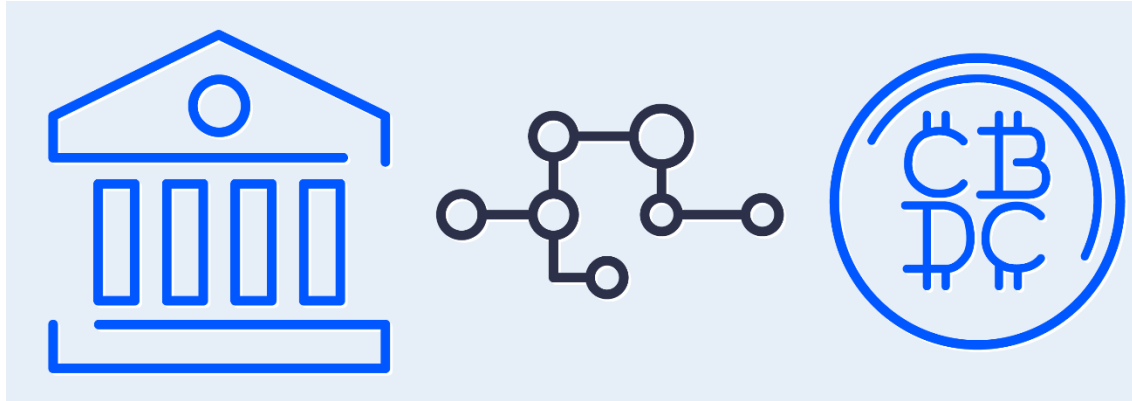
News Industries

TassatPay raises \$40m, unveils blockchain Digital Interbank Network

December 17, 2021 · by Ledger Insights



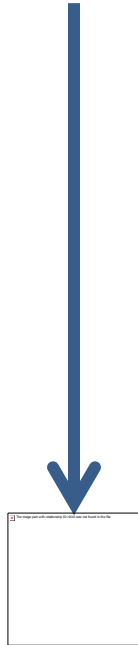
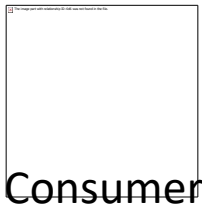
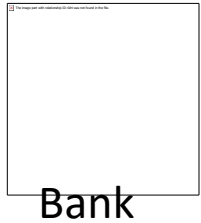
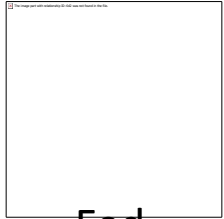
Central Bank Digital Currencies (CBDC)



- Digital token issued by and held as a liability of the Federal Reserve
- Fundamental change in a consumer's relationship with the Fed

CBDC Models

Direct



Hybrid



Wholesale



No compelling case for CBDC in U.S.

Opportunity

- Financial Inclusion
- International Competitiveness
- Cross Border

Risks

- Deposit Substitution
- Financial Stability
- Big Tech's Role
- Fed Balance Sheet
- Privacy
- Enforcement of AML/KYC/Sanctions

What about the Regulators?

- The OCC, FDIC, and Federal Reserve have each weighed in with a *notify, and we'll let you know* approach
- The FDIC is focused on misrepresentation of FDIC insurance
- The SEC and CFTC are in a battle for jurisdiction
- The SEC issued an accounting bulletin that indicates how safeguarded cryptoassets should be recorded

What about the Administration?

[Executive Order](#) on Digital Assets

- Calls for 14 distinct reports on the crypto market
- Largest impact on CBDC, including tasking the AG to assess whether legislation is required and draft it, if so
- Strong nexus to national security

[President's Working Group](#) on Stablecoins

- Stablecoin issuers should be insured depository institutions,
- Custodial wallet providers should be subject to appropriate federal oversight, and
- Stablecoin issuers should comply with activities restrictions that limit affiliation with commercial entities.

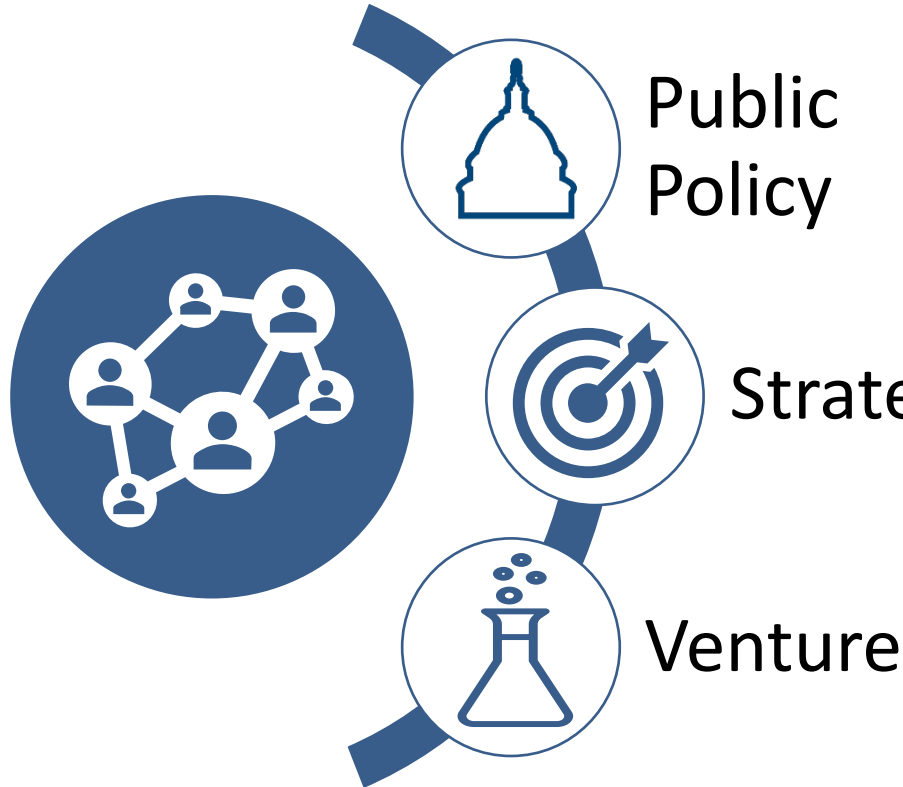
What about Congress?

- Digital Commodities Consumer Protection Act – Sens. Stabenow and Boozman
- Responsible Financial Innovation Act – Sens. Lummis and Gillibrand
- Stablecoin TRUST Act – Sen Toomey
- Potential bipartisan House stablecoin bill

Questions?



Innovation @ ABA



Public Policy

Engage policymakers to ensure banks have regulatory clarity to adopt new technology and business models, while ensuring that an unlevel playing field doesn't develop.

Strategy

Help banks explore opportunities and define an innovation strategy by tracking market trends and identify promising potential partners.

Venture

Direct entrepreneurs toward building startups that solve our industry's toughest problems, not compete with it.

ABA Resources and Policy Statements

- [Understanding Cryptocurrency](#)
- [Comment on Fed CBDC Discussion Paper](#)
- [SEC SAB 121 Request for Delay](#)
- [FDIC RFI on Digital Assets](#)
- [SFR on Crypto](#)
- [SFR on Stablecoins](#)
- [SFR on CBDC](#)
- [Letter to BCBS on Capital Treatment](#)

