

February 23, 2023

## **Joint Statement on Liquidity Risks to Banking Organizations Resulting from Crypto-Asset Market Vulnerabilities**

The Board of Governors of the Federal Reserve System (Federal Reserve), the Federal Deposit Insurance Corporation (FDIC), and the Office of the Comptroller of the Currency (OCC) (collectively, the agencies) are issuing this statement on the liquidity risks presented by certain sources of funding from crypto-asset<sup>1</sup>-related entities, and some effective practices to manage such risks.

The statement reminds banking organizations to apply existing risk management principles; it does not create new risk management principles.<sup>2</sup> 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.

### **Liquidity Risks Related to Certain Sources of Funding from Crypto-Asset-Related Entities**

This statement highlights key liquidity risks associated with crypto-assets and crypto-asset sector participants that banking organizations should be aware of.<sup>3</sup> In particular, certain sources of funding from crypto-asset-related entities may pose heightened liquidity risks to banking organizations due to the unpredictability of the scale and timing of deposit inflows and outflows, including, for example:

- **Deposits placed by a crypto-asset-related entity that are for the benefit of the crypto-asset-related entity’s customers (end customers).** The stability of such deposits may be driven by the behavior of the end customer or crypto-asset sector dynamics, and not solely by the crypto-asset-related entity itself, which is the banking organization’s direct counterparty. The stability of the deposits may be influenced by, for example, periods of stress, market volatility, and related vulnerabilities in the crypto-asset sector, which may or may not be specific to the crypto-asset-related entity. Such deposits can be susceptible to large and rapid inflows as well as outflows, when end customers react to

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<sup>1</sup> A crypto-asset generally refers to any digital asset implemented using cryptographic techniques.

<sup>2</sup> See [Interagency Policy Statement on Funding and Liquidity Risk Management](#), [Federal Reserve SR 10-6](#) (March 17, 2010), [FDIC FIL-13-2010](#) (April 10, 2010), and [OCC Bulletin 2010-13](#) (March 22, 2010). For bank holding companies and foreign banking organizations with \$100 billion or more in total consolidated assets, see 12 CFR 252.34 and 12 CFR 252.156, respectively. For national banks and Federal savings associations, see also [OCC Interpretive Letter 1172](#), “OCC Chief Counsel’s Interpretation on National Banks and Federal Savings Association Authority to Hold Stablecoin Reserves” (September 21, 2020) and [OCC Interpretive Letter 1179](#), “Chief Counsel’s Interpretation Clarifying: (1) Authority of a Bank to Engage in Certain Cryptocurrency Activities; and (2) Authority of the OCC to Charter a National Trust Bank,” (November 18, 2021).

<sup>3</sup> See [Joint Statement on Crypto-Asset Risks to Banking Organizations](#) (January 3, 2023).

crypto-asset-sector-related market events, media reports, and uncertainty. This uncertainty and resulting deposit volatility can be exacerbated by end customer confusion related to inaccurate or misleading representations of deposit insurance by a crypto-asset-related entity.<sup>4</sup>

- **Deposits that constitute stablecoin-related reserves.** The stability of such deposits may be linked to demand for stablecoins, the confidence of stablecoin holders in the stablecoin arrangement, and the stablecoin issuer’s reserve management practices. Such deposits can be susceptible to large and rapid outflows stemming from, for example, unanticipated stablecoin redemptions or dislocations in crypto-asset markets.

More broadly, when a banking organization’s deposit funding base is concentrated in crypto-asset-related entities that are highly interconnected or share similar risk profiles, deposit fluctuations may also be correlated, and liquidity risk therefore may be further heightened.

### **Effective Risk Management Practices**

In light of these heightened risks, it is important for banking organizations that use certain sources of funding from crypto-asset-related entities, such as those described above, to actively monitor the liquidity risks inherent in such funding sources and establish and maintain effective risk management and controls commensurate with the level of liquidity risks from such funding sources. Effective practices for these banking organizations could include, for example:

- Understanding the direct and indirect drivers of potential behavior of deposits from crypto-asset-related entities and the extent to which those deposits are susceptible to unpredictable volatility.
- Assessing potential concentration or interconnectedness across deposits from crypto-asset-related entities and the associated liquidity risks.
- Incorporating the liquidity risks or funding volatility associated with crypto-asset-related deposits into contingency funding planning, including liquidity stress testing and, as appropriate, other asset-liability governance and risk management processes.<sup>5</sup>
- Performing robust due diligence and ongoing monitoring of crypto-asset-related entities that establish deposit accounts, including assessing the representations made by those crypto-asset-related entities to their end customers about such deposit accounts that, if inaccurate, could lead to rapid outflows of such deposits.<sup>6</sup>

In addition, banking organizations are required to comply with applicable laws and regulations. For insured depository institutions this includes, but is not limited to, compliance with brokered

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<sup>4</sup> See Federal Reserve and FDIC, “[Joint Letter Regarding Potential Violations of Section 18\(a\)\(4\) of the Federal Deposit Insurance Act.](#)” (July 28, 2022).

<sup>5</sup> See “[Interagency Policy Statement on Funding and Liquidity Risk Management](#),” 75 Fed. Reg. 13656 (March 22, 2010).

<sup>6</sup> See FDIC FIL-35-2022, “[Advisory to FDIC-Insured Institutions Regarding Deposit Insurance and Dealings with Crypto Companies](#),” (July 29, 2022).

deposits rules,<sup>7</sup> as applicable, and Consolidated Reports of Condition and Income (also known as the Call Report) filing requirements.<sup>8</sup>

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<sup>7</sup> See 12 CFR 337.6.

<sup>8</sup> See 12 USC 324 (Federal Reserve); 12 USC 1817(a) and 12 CFR 304.3 (FDIC); and 12 USC 161 and 1464(v) (OCC).