Transcript of Community Bank Conference:
The Evolution of Consumer Demands and How
Community Banks are Responding & Closing Remarks
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ERIC SPRINK. Well, thank you, guys. And -- and Governor Bowman, thank you so much for having us. And thank you for the audience. We got a bunch of friends out in the audience as well, and everybody watching. Excited today that I get to introduce a friend and a partner of ours, somebody that supports community banks and is very focused on the consumer. With that, if you wouldn't mind saying hi.

VLAD TENEV. Hey, and thank you to interview me. Vlad Tenev, co-founder, CEO of Robinhood, financial super app. Started in brokerage but has expanded into a whole bunch of financial services and also proud Coastal Community Bank partner. So, thank you for -- for that as well. Funny story.

ERIC SPRINK. I was watching Vlad on CNBC News about a month ago, and at the 31st minute, he said, "I don't need to be a bank. I've got Coastal." I was like, okay.

[Laughter]

ERIC SPRINK. We're about partnership. So, I'm obviously Eric Sprink, Coastal Community Bank up in Everett, Washington. Been with the company for about 20 years now. President and CEO, and happy -- happy that I'm here. Right? We've all been through a lot, so we've been through a distinct journey, which we'll talk about today. But really, this is about Robinhood and Vlad. And -- and then, of course, we'll open it up for Q and A and insights from you guys as well. So, with that said, you -- you briefly touched on the company, where you're at today. Why did you start it? Give them a background and -- and how did you get into it?

VLAD TENEV. Yes, it's a long story. I -- I actually never really intended to be an entrepreneur. I grew up here in Washington D.C., actually. And, you know, I was an immigrant to this country. When we immigrated from Bulgaria. My dad, right after the fall of the Berlin Wall and kind of the -- the fall of communism in Bulgaria, had a unique opportunity to come to the University of Delaware. So, back then, the -- the family didn't have very much money, so he could only come by himself. So, I still remember one of my earliest memories. People ask me all the time, "Do you remember when you were three years old, four years old?" And -- and for me, it was very simple because, you know, there was a big change in my life, obviously, when I moved to - -to the US, but also a big one when my dad moved to the - -to the US because I was -- I had just turned four years old, and it was like my first time to the airport. Yes, big experience, kind of seeing him go off into this new world like a conquistador or -- or a nomad. I'm not sure. My mom immigrated about a year later. And then I moved with my aunt who was like a 15-year-old punk rock teenager. She loved Nirvana and Soundgarden, your local –

ERIC SPRINK. Seattle.

VLAD TENEV. --your local bands. Yes. So, she brought me. And then, you know, growing up, I was -- it -- it was sort of like my family took this big risk by moving across the world. And then, ever since then it was sort of like risk mitigation. Let's, you know, have a -- a stable life, encourage our -- our child to like have a great career. So, my parents' dream for me was that I would work at a big bank. Yes, and -- and it was like, you know, if I had gotten a job at JP Morgan or Goldman, that would have been the pinnacle. But both of them were working at the World Bank here in Washington D.C. for pretty much their entire career, like 20-plus years from moving here, graduating grad school to -- to retirement. And when I graduated from college in 2008, I was a math major. I didn't really know what to do. So, I went through the

default path of grad school to become a math professor. And I was interested in that because I was always sort of like interested in big questions and kind of figuring things out. So, I thought my biggest contribution would be to come up with a theory that maybe a kid would be learning in school in 20 to 50 years. So, that was the dream. And then I got hit with the realities of what it meant to be an academic career, which in some ways is not very attractive. My first month in grad school, Lehman Brothers went under. You had the global financial crisis. And yes, it -- it was interesting because I'm sure many of you in this room remember that very acutely. There was a huge amount of pessimism about the world in the wake of the global financial crisis, particularly from millennials. You know, my classmates, many of them actually lost their jobs. I still remember my classmates that got jobs at Barclays. Right? And they were very, very confident because back then, computer science wasn't the most common major. People were -- the most attractive job was to go into the financial industry and you know, go into banking. Some went into consulting, but banking and hedge funds were very attractive. So, the folks that were most confident in their careers graduating from college suddenly became like, you know, their -- their whole career plan just -- just got turned upside down. So, in the wake of that, my good friend from college convinced me to drop out of grad school and start a -- a financial company. So, that -- that was the origins of it. And then, I enjoyed being an entrepreneur and building for myself so much. It kind of reminded me a little bit of -- of solving a difficult math problem in kind of a funny way in the sense that if you're an entrepreneur, at the end of the day, it's like your effort, the code that you write that determines success or failure in much the same way that if you're studying math, it's sort of like your brain, the couch and the chalkboard. And so, it's -- it's in a way a very efficient way of taking what's in your mind and -- and creating value. So, that's what appealed to me initially.

ERIC SPRINK. And we're going to come back to that math topic. But that's interesting. I didn't know that. So, there was panelists up earlier today and the -- the bankers are fantastic and -- and well-regarded in our community. They -- they really were trying to articulate -- articulate that they have a personal relationship with their customers and they're trusted by their customers. And they do that through their branches and lenders. How have you been able to do that using digital delivery and other ways? And how do you build that trust and service your consumers?

VLAD TENEV. Yes, I think -- I think that's a really good question. And I think actually that points to one of the big advantages community banks have. I think that it's inherently a little bit more challenging for a digital only platform to have that type of deep relationship with customers. And at first, our assumption was that we could do everything digitally. We won't do, you know -- if -- if you require anything other than simple processing of your trade or transaction, we won't get in there. But we found as we've gotten more advanced, as our customers have grown, their needs have gotten more complex, that I think -- I think at this point, it's -- it's hard to replicate the personal relationship. I think -- I think you guys shouldn't be too worried about AI. I mean, I think that in many ways if you're a financial advisor, the product is less the advice and more the -- the relationship. I mean you feel like if -- if you're a financial advisor or personal banker, private banker, in some ways these folks are people that you have relationships with. And -- and I think the -- the information and the advice itself can often be commoditized, but -- but I think it'll be very hard to replace that feeling. And I think that's an advantage community banks have. We try as much as possible to replicate that digitally. For example, a couple months ago we rolled out Robinhood Concierge because we

noticed, you know, at a certain point when a customer gets so involved with Robinhood, they're using maybe five to ten of our products, they have a -- a significant amount of money with us, we -- we want them to have a representative that they can text, they can communicate with. And when we launched that, the results were -- were really amazing. So, I think of course we try to do as much as we can digitally, but -- but I think there's something that actually can't be replicated, where, you know, Coastal and -- and many companies in this room are actually quite strong. I do think in terms of trust, there is one opportunity that we're trying to seize aggressively as a digital platform, but -- but I think it's accessible to many of the folks in this room and that's the family relationship. I think that if -- if you think about trust, particularly with banking, a lot of people find out about banking through their parents, maybe grandparents. A lot of your -- your first relationship with a bank is because, you know, at least for me, my mom and dad came into the local branch in my neighborhood and opened up an account for me and you know, they got me a debit card which was very, very cool at the time. Every -- every kid wants a -- a debit card. But my -- my impression both as a customer and kind of as a entrepreneur in this space is that I think the young people are kind of undervalued by a lot of the banks. Yes, it's hard to get a credit card if -- if you're, you know, not 25 and already making a lot of money. A lot of the communication between the -- the -- the child, even if -- even once they turn 18, goes through the parent. And if you think about it, when -- when someone goes to college, when they turn 18 and go to college, even if they're a community banking customer, they leave home and they go to a place where, you know, they're -- they're around other people. Those people are talking about finances all the time. I mean we've seen a lot of growth happens with us in the college market and I -- I think that's an opportunity. And I don't think a lot of

fintechs or -- or banks are taking that seriously, because I -- I think the family network is such an important one and it's -- it's low hanging fruit for -- for growth as well as building trust.

ERIC SPRINK. I love that and -- and it does remind me, selfish plug, but it's tech-enabled trust, tech-enabled relationship, for our community bankers that we can do both and it actually could help us. You know, we run a -- a venture fund called Bank Tech Ventures that helps banks see those technologies that can meet in the middle with the consumer and what they're asking. So, you -- you mentioned it. We -- we work with you. Can you tell them what banking products that you have and -- and maybe selfishly again, why did you choose Coastal?

VLAD TENEV. Yes.

ERIC SPRINK. We're -- we're extremely grateful, by the way.

VLAD TENEV. Yes. So, we announced Robinhood Banking in Q1 of this year. We did a -- an event in San Francisco where we demoed and unveiled the features. And then recently, last week, we actually did our first external rollout. So, for the first time, people outside of our company, outside of our employees, were -- were able to open accounts. And we've actually been -- so, stepping back. I mentioned at the beginning, the goal of Robinhood was to be financial super app. To not just be the place where you trade, but actually all of your finances should be -- should be handled by our software, our technology. And banking is a big part of that because your paycheck goes into your bank account and it's sort of like the -- the funnel through which all of your other accounts and services get funded. And we've had a few different attempts at this. We launched a Robinhood Spending account which was money transmission product state by state. We had Robinhood Cash Management which was like our take on spending and using your brokerage account as kind of bank account replacement. And

then those didn't really hit the spot. And the reason those didn't work was primarily two reasons. One, our customer base is contrary to kind of a lot of sort of like the -- the impressions of a lot of people. Our customers are a little bit wealthier. They're not the paycheck-to-paycheck customer, because by the time you are thinking about investing, your basic financial needs are typically met. Those customers tend to be credit card primary. And -- and we kind of see that it's a one-way flow. Once you go from being a debit card primary to a credit card primary customer, you're not really going backwards. So, a -- a debit card product didn't really resonate with the vast majority of our customers. They wanted credit. The other thing is they like to have their money in different buckets. And even though sometimes we can argue it's less financially optimal to separate your money into different buckets, you should just like have them all in one place because then you don't have to worry about moving it. You can make sure it earns the highest interest, that sort of thing. But yes, people don't like the money that they use for core day-to-day spending to be intermixed with their retirement savings or their -- their long-term investments. And so, having it be part of your brokerage account just like is suboptimal from -- from that standpoint. So -- so, that led us to Robinhood Banking and the -- the inspiration for Robinhood Banking was private banking, accessible to everyone. So, what are the things that a high net worth individual would get from a private bank and can we actually replicate that experience both in terms of products and product quality and service with a digital form factor? And when we started thinking about this, we got excited because it's something we would use and our customers would use. It's also quite differentiated. Like, I don't think any of the fintechs are taking this -- this angle in quite the same way. You know, most of them are targeting paycheck to paycheck customer because they, from a business strategy standpoint, they view that customer as underserved. And it's sort of like the -- the canonical strategy would be -- it's

easier to handle the underserved customers and kind of go up market from there. And -- and you could argue, the high net worth individual is a highly served customer, the most -- the most in demand. And so, this is like a high degree of difficulty path. But I think that's what makes it interesting. And so -- so, banking, if you look at all the features, they have this thing in common which is differentiation is things that you would expect a high net worth individual to get. And then the challenge we have is how do we make this available to the mass market. And I'm pulling out -- I actually have something to demonstrate here. This is the first product we launched in partnership with Coastal Community Bank: the Robinhood Gold credit card. So, this one is actually solid gold. When I came into this building a couple hours ago, the first question was "Where's the gold?" I was told there is none.

[Laughter]

VLAD TENEV. So, I brought some. This might be the most gold in the building. But -- but anyway, it's not just the appearance of the card. Three percent cash back on all categories with very few caveats. We had to add some caveats because we saw abuse. For example, people were paying their taxes with it and -- and all that sort of thing. But yes, we recently announced a couple weeks ago crossing 400,000 cardholders. The wait list for this card was north of 3 million, which I think is among the highest, if not the highest, for -- for any credit card product. But -- but you can see the idea, hopefully. It's just a card that would be very, very difficult to get unless you're a high net worth individual. And sort of like the cream of the crop at -- at a -- at a normal bank. And that extends to the -- the retail banking offering, too. We have cash delivery, which is a, you know, controversial feature. Nobody has -- has really done that before, but you know, I'm a high net worth individual. I had access to this feature. I had First Republic Bank, and you know, there was a big truck that would bring cash to my house. And -- and you

know, it was a very nice feature. You don't have to go to the atm. And then we asked ourselves, "What would that look like if we just democratized it?" And obviously, not everyone needs the big truck. But you know, you get your food delivered by DoorDash. The cars take you on demand to, you know, your friend's house. So, why can't the cash come to you? And -- and so, early results are good, but yes, we'll -- we'll see. We'll have lots of challenges scaling it, but it's -- it's sort of that thread of how can we make it with no compromises, make it as efficient as possible, digitally delivered. And I think when we pulled on that string, we -- we pretty much got the product roadmap for it.

ERIC SPRINK. And -- and what you'll start to see more and more from Vlad and Robinhood is the discipline and the math, the engineer in him and how they run their company. They're constantly testing, rolling out, getting feedback. I forget the term you use for that interactive session, but you're always asking your customers and you're looking at the data to say, "Okay, who's using it? Why are they using it? And how can we be better?" It's -- it's something we can all learn to do is talk with our customers more. How often do you actually sit down and listen to your customers and how much does that kind of point you in the right direction for new products, services, deliveries, etcetera?

VLAD TENEV. I try to do that regularly. So, there's a couple of things that I think there -- you probably feel this as well, I'm sure. As the organization gets bigger it can be, if -- if you're not careful, you can get separated as the CEO from the people that are actually doing the work. I mean you can -- there's a tendency to be talking to the SVPs or the C-Suite and get all of your information that way. But I think there's no substitute from going to the other end of the org chart and either talking to the individual contributors on the engineering side or to customers directly. So, I try to do user research myself. So, talk to -- and we have structured

UX research. We have a team that does a great job with that. And I try to do that at least once a quarter. And I try to do customer support as well, like actually sitting down, taking tickets on the phone or on chat, competing with our AI, because we also have AI that's -- that -- that's doing these things. And I try to do that whenever I visit our support offices, which is at least once per year per office. So, and -- and actually we try to innovate there, too. I mean, there's all kinds of AI tools that make these things easier. Even user research, like new tools where, you know, you can have a -- a chatbot having a live interactive conversation with your customers while they're using the product. So, we try to stay at the frontier of that as well. And you know, I -- I think like how we make these products is -- is probably a little bit more differentiated than -- than the product itself. Like, you know, it's -- it's in some ways easy to come up with these ideas, but the factory, the machine that, like, makes these products at high velocity and high quality multiple times per year, I think -- I think that's what's actually hard. And, you know, we try to refine that constantly.

ERIC SPRINK. I'm sure you're going to get an AI question in the end, but let's -- let's go to crypto and blockchain. What are you guys working on right now? And then we can segue into tokenization, if at all. And but, go ahead.

VLAD TENEV. Yes. I think that the criticism that a lot of people have had about crypto for a long time, and I think it's a fair criticism, is that it's not -- perhaps it's not as real as it should be. And you know, you're -- you're trading these tokens, and most of them are memes that aren't backed by anything with fundamental utility. That's the criticism that we hear. And I think part of that is downstream of the regulatory posture that the US has taken, over the past few years. Like, we have perfect -- well, I -- I shouldn't say perfect, close to perfect regulatory clarity that meme coins are not securities. But if you have something that resembles a security,

it's basically disallowed. Right? So, you can't connect it to crypto technology. So, to some extent, the -- the market that's developed in the US is downstream of that regulatory posture, which -- which is now changing. And our solution, I -- I think the technology is super valuable, and we think Robinhood can play a role in bringing the technology to assets that have fundamental utility. And that's why our big efforts here are around tokenization. So, tokenization refers to taking a real asset and making it divisible and tradable using blockchain technology. And this is not yet possible in the US or at least for -- for assets that retail investors want to trade. But it's possible in Europe. So, in Europe, a few months ago, we launched stock tokens, which are tokenized versions of US stocks, where we had now up to about 500 of the most popular liquid names, available to retail investors in tokenized form. And we're going to build that up and keep advancing it. I mean, what we announced was Phase One. And it culminates in these stocks being freely transferable, on DeFi, on blockchains, where the -- the possibilities really start to multiply. We also demonstrated the power of the technology in trading normally illiquid assets, and that was through a giveaway of OpenAI and SpaceX stock tokens. So, to my knowledge, we were the first to -- to do that for -- we were the first to tokenize OpenAI and SpaceX. And I'm not sure there's a Guinness Book of World Records for that, but I think there should be. And you know, that just demonstrates the actual power of the technology. You can -- you can actually tap into the gigantic global liquidity of the crypto markets and make any real world asset, even something as challenging as a private stock, instantly tradable 24/7 around the world. And -- and I think that's a very powerful thing.

ERIC SPRINK. So, we have my peers here, bank CEOs from all over the country –

VLAD TENEV. Yes.

ERIC SPRINK. -- that bleed the blood of this country and they love their communities. This is hard.

VLAD TENEV. Yes.

ERIC SPRINK. Can you give them 2 cents on how to get started? What should they be looking at? What -- what is the first step for a community bank to -- For crypto. Crypto tokenization? Yes. Maybe start basics, for me in particular.

VLAD TENEV. Okay, how many of you guys or -- have heard or are interested in stablecoin? Okay, stablecoin, I'm guessing is like the -- the big topic. How many of you are nervous about stablecoin? And okay, so we have a couple of people. How many see no value in stablecoins and are at least questioning the value for -- for your customers? All right, good talk.

ERIC SPRINK. You're okay. You're allowed to say it. What's the use case, is what I hear. What's the use case?

VLAD TENEV. Yes, so -- so this is interesting. I have many thoughts and I'm curious actually to hear your thoughts because you're -- you're probably living and breathing this. And you guys heard from Chad from Paxos earlier, who I think was the interviewer, but actually Chad is our partner on USDG, the Dollar Global Network, which is a stablecoin that we're working on. So, use case for stablecoins. Robinhood actually uses stablecoins in our business as -- as a business customer. And for us, the big thing is being able to move money on weekends round the clock. So, we have this -- this product, crypto trading that we offer to our customers. And in order to facilitate a crypto trade, we have to actually settle with market makers and other counterparties that provide the liquidity to us. Now, what happens when that trade -- when there's trading activity on a weekend, right? And there's been lots of times where crypto markets can be super volatile and the volume can dramatically increase up to 10x in a -- in a

single week. And if that falls on a weekend, we have a couple of options for how to settle with counterparties because we can't move money the traditional way over weekends. There's no ACHs or wires. Right? We either have to have huge lines of credit with our counterparties which are expensive. We have to store our corporate cash there. And the more counterparties you have, they all use different banks. It becomes challenging, right, because you have to give yourself a buffer and you know, that -- that can add to quite a high cash need. So, this becomes expensive or you can shut down counterparties and worst case scenario, you run out of buffer, run out of money at these banks. You have to shut down trading which customers really don't like. So stablecoin, great solution because it doesn't matter what bank they have. If you settle in stablecoins 24/7, real time, on weekends, and you know, if you can convince your counterparties, most of which are -- are fairly technology savvy, to take stablecoins, it sort of like solves the problem. And so, over time, we've been building up a larger and larger stablecoin position just to do these types of settlements. So, there is real value in the 24/7 aspect of this, which gets to my prediction. I think that right now at least the value proposition for a retail customer to hold dollars in stablecoin form is not really quite there in the U.S. You know, you guys are providing FDIC insurance to customers. That's a high value proposition. You can get interest. So, like money sitting in stablecoin form, not super attractive or differentiated, but as a funding rail, as a -- as a way to send money back and forth, there is a ton of value. So -- so, I think stablecoin could compete more with RTP, RFP and these instant payment rails, more so than -- than an actual deposit sink. And -- and I think that's the domestic opportunity. Internationally it's a different story. And I think, maybe you guys should think about it a little bit differently internationally, because a lot of folks have difficulty getting access to US dollars outside the US and that's why you see stablecoin adoption skyrocketing, typically in countries

where the population is hungry to get access to US dollars. Maybe they already have crypto accounts, and, you know, where the local currency might be inflating at a -- at a high rate. So, you've seen huge adoption in places like Turkey, El Salvador, right? And I think -- I think that's interesting because those people have no other options. A lot of the banks aren't serving those markets, and it sort of replaced the American Express Travelers check, which up until fairly recently, was kind of the next best alternative. So, yes, I -- I think there's an opportunity to embrace this business and get net new international customers as a result of it for -- for those that can figure out how to navigate it.

ERIC SPRINK. I love it. There -- I -- I want to switch topics just ever so slightly. There are a lot of myths or preconceived notions about who uses Robinhood. And you briefly touched on it earlier. Is there a generational difference? Because we heard earlier –

VLAD TENEV. Yes.

ERIC SPRINK. -- you know, younger people are going to be the first to adopt it, and you got to get in now because ten years from now, that wealth transfer that you were alluding to earlier, or are -- are you banking all of the generations?

VLAD TENEV. Yes, and that's a great question. One thing we're really trying hard to avoid is being a generational company, because in -- in some sense, our predecessors, the discount brokers, are generational companies. You think about Schwab and how they cut their teeth serving the baby boomers or E Trade, which is very much like Gen X. Right? And, you know, Robinhood, when -- when we got started, we were considered a -- a millennial company. Right? Because the millennials were the youngest at the time. And -- and I think we have to be really careful to make sure we're always paying attention to the younger generation, because you don't want to eventually be stuck servicing customers that are getting older and, you know,

might not be around forever. So, we're thinking really hard about how to do that. It starts with talking to your customers, but I think it's also, how do we make your brokerage account and your bank account work better when your whole family is on it? I think the family, again, is a -- is a very, very important vector that nobody's really paying much close attention to. And hopefully, you've seen with our credit card and our banking product, it's very much family first. Like, we want to make it really easy to get your spouse, your partner, your nannies, if you have them, and your children on the platform. And of course, I think there's different -- there's differences in how young people think about technology. Like, young -- younger people are more digitally savvy. They're more comfortable doing everything on the smartphone. They view a bank branch office access as a luxury and a nice to have rather than a necessity. But I -- I think at the end of the day, so -- so, I think we have to be abreast of -- of those trends. But at the end of the day, everyone wants the best possible experience at the lowest cost. And -- and so, it's extremely competitive to deliver that. And I think community banks, such as many in this room, have -- have inherent advantages. Right? And if you partner with technology firms who care about user experience and are digital first, you can create something where the customer basically doesn't have to make any compromises. And -- and I think that's a really interesting opportunity.

ERIC SPRINK. I'll ask one more question, then we'll open Q and A as we get closer. I mentioned the math thing earlier. I was fascinated by this. What is this Harmonic mathematical superintelligence company you're building?

VLAD TENEV. Oh, yes. Oh, that. That's a fun one. So, I started another company that I'm chairman of. So not -- not in an operating role. And going back a little bit to my roots as a mathematics PhD student, we made this observation that AI models can make mistakes, even

solving basic math problems. Right? I don't know how many times you -- maybe you guys have seen these examples of like, they can't really subtract properly, they make mistakes with subtraction, and yet, you know, they have access to all this knowledge. They can synthesize information really, really well. And conceptually, they can be quite creative, which are qualities that are really good for -- for mathematics. So, the idea with Harmonic is can we actually put these two things together and build something that verifies all pieces of output, can still be creative, but you can, like, trust the mathematics it produces? And of course, we're also extending it. Mathematics is so foundational that it's not just about, you know, solving geometry problems, although that's very cool. Computer software is based on mathematics. So, if you -- if we figure this out, and we've recently started productionizing it and -- and offering this as an API to companies and -- and mathematicians. You -- once you have this foundation of reliable hallucination free output, you can write computer software that's verified and doesn't make mistakes, and -- and that's a huge opportunity and particularly in financial services where the consequences of like your accounting system getting something wrong or our trading system making errant trades can be -- can be catastrophic. So, we think in the future, all software will be verified, particularly because more and more software is going to be generated by AI and it's impossible for humans to be. It's impossible and also not very much fun if you're a top software engineer to be pouring over thousands of pages of AI-generated computer code and verifying its correctness.

ERIC SPRINK. I love it. I do want to sneak in one more topic. Predictive markets.

VLAD TENEV. Yes.

ERIC SPRINK. Because Polymarket came out today with a big capital raise and a very big value. I know you are an industry leader in this and -- and first one over the wall sometimes

gets, you know, an arrow or two. But how are you in that and why did you get into that and where are you at with it?

VLAD TENEV. Yes, we've been interested in –

ERIC SPRINK. Explain it too, for everybody.

VLAD TENEV. Yes. So, many people -- actually, one of the criticisms I get is it's just gambling. Why don't you call it gambling? It's just people are betting on things. So, I'm -- I'm not going to try to refute that. But what I'll tell you is prediction markets, I think is -- is an interesting new innovation. So, what it is, is you can trade on the outcome of a real event. Our first prediction market that we rolled out almost exactly a year ago was the presidential election. So, you could trade on the outcome of the presidential election and you might have first heard prediction markets in the news because they were being juxtaposed against polls. Like the polls were pretty far off, but the prediction markets gave you a real time view of what was likely going to happen. And they basically called the election, with -- with high confidence far before -- long before the news networks actually called the election. So, traders can speculate on the outcome of events, and it started with politics, but now sports and even economics. So, we have prediction markets on Fed rate decisions and inflation numbers which are actually quite popular. And -- and in addition to being a useful asset for traders to trade 24/7, it's a good source of information. So, we have all these people that don't necessarily want to trade it, but they want to know, "What's the Fed likely to do?" Oh, 75 percent chance of a 25-basis point rate cut. That's useful. And -- and for the traders, I think it lets you very precisely take a point of view that you have about what might drive the market or a stock and -- and execute that point of view. So, for example, on the -- the election is a great example. If you had a point of view

that Trump was going to win the election, in the past, you would have had to execute that in the form of a trade by maybe buying SPY or buying crypto. But the effect can be unpredictable. It's -- it's sort of like the connection between company earnings and stock price. Sometimes you have a company that beats earnings, the stock goes down. So, if you had a point of view that the company will beat earnings, the stock might not be the -- the best mechanism. But this allows you to very surgically as a trader, trade your point of view, which -- which I think has made it exciting for traders. Yes, and -- and me personally, I think they're -- I call them truth machines. There's so much misinformation out there, you don't know what to trust. Markets tend to be quite trustworthy in most cases. So yes, we're -- we're excited to be a leader. We've really increased the diversity of the prediction markets that we offer. Just yesterday we launched how long will the government shutdown last, which a lot of traders care about.

ERIC SPRINK. What's the over, under?

VLAD TENEV. Twenty days. The 50 -- yes, 20 days. Actually, yes, that's right, about 20 days more.

ERIC SPRINK. Well -- well, this is fascinating and I do want to honor our time commitment. So, do we have time for one question or we're going to sneak in one question.

VLAD TENEV. Oh.

ERIC SPRINK. Sorry.

VLAD TENEV. That's a big question.

ERIC SPRINK. She's -- she's nice though. I met her. It's Wyoming. It's all good.

AUDIENCE MEMBER. Well, it is -- it's tied to Wyoming. So, I appreciate that there are so many people in the room way smarter than -- Than me, yes. -- those -- than us. And maybe what we do every day and you've showed that there is a use case. we all -- no one

disputes there's a use case internationally for real-time training? Stable token, it doesn't matter how that function is. There's an international use case. There's a Wall Street use case. But come to Wyoming and think about my bank in Wyoming, 570-million-dollar bank. I bank lots of businesses. Is there a use case for domestic regular business trade from the people on Main Street? I mean really, that's what I think every banker in this room wants to ask that doesn't operate on a Wall Street model. We don't trade. We don't mess in the commodities market. Do you see use case for what we do every day?

VLAD TENEV. Yes, go ahead.

ERIC SPRINK. Well, I was going to answer it a little differently. He probably has a smart answer, so disregard mine by 50 percent.

VLAD TENEV. Well, no, you should answer because I also wanted to hear your thoughts on stablecoin.

ERIC SPRINK. We often don't see the use case, but we want to be ready when it presents itself. And that's I think sometimes the hardest leap. And -- and I'm very proud of our board that they're entrepreneurial and they're willing to spend some money to prepare for an ultimate outcome that may or may not happen. Right? And -- and that takes capital and that takes earnings. But we always need to be thinking about what could come versus what is here today or looking worse, backwards. Because if we're building for what was five years ago and it's proven out, it's too late. He's already moved. So, I would just challenge you to keep that innovative spirit, the entrepreneurial spirit. Keep your options open, start researching, start investigating, learn is step one. My humble opinion.

VLAD TENEV. Yes. My -- my take is honestly, from your position you probably have more compelling opportunities. I think there's a lot of misinformation and hype out there. For

example, a lot of people are saying, "Okay, this is going to be the new way people pay for stuff." I think in the US, it's going to be very, very hard to compete with the credit cards. I mean we have a great credit card offering, 3 percent cash back on all of your spend. It's hard to do that with a stablecoin. And I don't think a lot of people are even -- a lot of companies are seriously trying to disrupt that piece. Interest. Even if we figure out how to pay interest in stablecoins, that doesn't mean that suddenly consumers are going to rush to keep their money in stablecoin form. You don't have the FDIC insurance protection, but it's also not a dramatically better product. You know, the interest isn't going to be higher. It's -- because under the hood, the assets are going to be kept in treasury bills or in some kind of bank account anyway. So yes, I -- I would probably not be overly terrified and looking for consumer use cases where there are none and where you're not seeing demand. And -- and I think there will be time. I don't think there's like a land rush opportunity in -- in most markets. and we offer support for stablecoins on our platform. You know, we have USDC, as well as a -- a big collection. Right now, it -- it's pretty niche. I mean most people are still moving money in through ACH, even though it's a little bit slower and perhaps not 24/7. But we can get very, very close to the ideal experience using traditional rails.

ERIC SPRINK. Well, that is all the time we have. We appreciate you guys very much and thank you for your time. And Governor Bowman will now come up.

VICE CHAIR FOR SUPERVISION BOWMAN. Wow. Well, hopefully we've provided you with a little bit of food for thought today. I know I've learned a lot, and I thought your questions were really fantastic. I know everyone's sort of struggling with this idea of what's next and how do we engage? Is it -- is -- are we ready to engage or do we have some more time? So, hopefully you've at least thought a little bit more about that. And as we're thinking

about how we're approaching things in the future as regulators and supervisors, we'll have an opportunity to -- to talk with you more about what you're thinking you want to do in the future and how we can empower you to do that, or we can help you understand how to be safe and sound in -- in engaging some of those activities.

But as we wrap up today's conference, I want to thank all of our moderators and our presenters on today's panels. And of course, I want to thank our Treasury Secretary, Scott Bessent, for sharing his perspectives on our nation's community banks. So many of you have told me throughout the day how invigorating it has been and how it's really increasing your enthusiasm and sort of changing your outlook to see such engagement on these issues across the government. So, it's -- it's exciting to be a part of this sort of change and approach. And all of the community bankers and state regulators around the country who have attended today's event, I see Arkansas and Mississippi are with us here in the room, but those of you joining us virtually, we're grateful to have you as well. I want to recognize our staff here at the Federal Reserve whose hard work have made today's conference possible. So, if you don't mind, I'm just going to give a shout out to each one of them. But generally, I want to thank our Community Bank portfolio that's led by Karen Kaplan, but her team, Amanda Roberts, who's fantastic, who is our MC today. I mentioned Karen Kaplan. Josh Smilovitz, Andrea Nore, Greg Jackson, Dedjrick Jeffries, Joe Timpone , Trevor Gaskins, Oluowle Makinde, Hetvi Patel, Virginia Gibbs, Briana Curran and Amol Vaidya. Thank you so much to all of you. And of course, I want to thank Aleksandra Wells, who really helped us put this event together today. I'm sure all of you have had a chance to meet her or -- or communicate with her as you've been attending the conference and -- and participating. So, thanks to all of you.

But I just want to share some thoughts because I don't often get, because of the -- my new role, I don't often get to talk about the things that we're doing on the community bank level here, from the supervisory and regulatory perspective. So, I just want to go over a couple of things with you that you might find interesting. Of course, we know that community banks drive local and regional economic growth. And you all play a central role in the financial health of the customers and the communities that you serve. Your banks often pursue unique business models, some more unique than others. Eric, I think, is a good example of that. Our last -- our last moderator. But your models are ones that are not easily replaced by larger banks, especially through that relationship banking model, which is a central tenet of community banking. But in today's environment, many community banks are embracing innovation and they're continuing to evolve to better serve their customers in the current and the future financial system, which was what today was really about: the future financial system. Our focus today has been on community banks. How you continue to innovate, how you continue to rise to the challenge to support your customers as the financial landscape continues to evolve.

Our legislators and regulators, and we had a -- a legislator in the room today, a member of Congress was with us, and he asked a great question about KYC and BSA and how they're thinking about that going forward and fraud. So, they're also thinking deeply about how we can all rise to the challenge to ensure that the community banking system continues to thrive through the critical task of ensuring that supervision and regulation are appropriately tailored. Our support for community banks cannot just be lip service. It must translate into specific actions that right size regulation and apply appropriate supervisory standards, specifically in identifying the appropriate definition of a community bank, in establishing appropriately tailored regulatory thresholds and in approaching supervision that's focused on material

financial risk. So, what is a community bank for this purpose? Generally, the community -- the regulatory framework uses the blunt tool of fixed asset thresholds. We know that relying solely on fixed asset thresholds is imperfect at best. They fail to account for economic growth and inflation over time, resulting in stable firms with stable growth, consistent business models and no change in their risk profile, crossing asset thresholds and becoming subject to increasingly complex and burdensome regulatory requirements and supervisory expectations. This is clearly not the intended or the desired outcome in that crossing these fixed thresholds has the unintended consequence of pushing down standards that are designed for larger and more complex banks to the smaller and less complex ones.

Compounding this problem is the overlapping and inconsistent thresholds that are used to define banks of different sizes and engaged in different activities. We should question whether this additional complexity is necessary or helpful, and whether it's detrimental to economic growth. A simple fix would be for policymakers to adjust the community bank and other thresholds based on growth, as one of you mentioned today on your Liquidity and Capital panel. And we could apply that adjusted threshold consistently, indexed against -- to adjust for future growth. This approach would preserve the policy choice established when the threshold was initially set. Defining a community bank is an important first step, but it's really just that: a first step. The next question is how to appropriately tailor our regulations for those firms. Over the years, I've supported an approach to regulation grounded in asking some simple but critical threshold questions. What problem does each new and existing regulation solve? What are the costs of that approach? And importantly, what alternative approaches are available? When we look back at existing regulations, we can clearly identify areas that could be improved.

For example, we've also talked today about the community bank leverage ratio as an optional alternative framework to risk-based capital requirements for community banks. A community bank that opts into the CBLR framework and complies with the established ratio is deemed to comply with risk-based care capital requirements. But if we look back at the history of the CBLR, the agencies approached the task of calibration primarily by evaluating how many banks would be eligible to opt in and calibrating the requirement to maintain the same high level of capital in this population of banks. In my view, this approach failed to achieve the relief that Congress intended. And more fundamentally, it failed to answer the critical questions we must consider in the rulemaking process. Let me turn to another prominent area that needs to be addressed. Even the regulatory applications process can have a negative impact on community banks. This process requires banks to seek approval from the Federal Reserve and other state and federal regulators for regulatory permission to engage in a transaction or an activity. The process can be unpredictable in terms of timing and information necessary to be ripe for consideration and approval. The costs of delay can be significant, as I don't need to remind all of you, which can damage the value of the target bank, creating uncertainty for bank staff and for their customers, and resulting in costly delays for critical systems integration contracts and service agreements, potentially damaging the reputation of both firms.

The remedy is simple. Regulatory application review should be effective, timely and efficient. Banks should have a clear understanding of the information they must provide to complete that application well in advance. The standards for approval must be clearly defined and available to the public. And regulators should be prepared to act to complete the application within the statutory timeframes. We've had an opportunity to take a new approach, or we have now an opportunity to take a new approach, and we are doing so. We cannot accept the opacity

of the status quo, especially when the fix is as simple as clear standards, clear forms and the prompt attention to and action on applications. One area where we have improved transparency relates to mutual bank capital. And I did notice that several of you are mutual banks that served on our panels today. So, thank you for participating. I've spoken about mutual bank capital a number of times. Yesterday, the board issued a series of frequently asked questions and two templates for mutual banks to use as they consider engaging in raising capital. These provide options for mutual banks to issue capital instruments that could qualify as Tier 1 Common Equity or as Additional Tier 1 Equity. These approaches are just a start. We've had a number of conversations about several different approaches, and we want to make sure that once you've had a chance to review these -- these processes, that we are open to further refinement and improvement once you have an opportunity to think about how you -- how these -- effective these are with implementing the desired outcome.

So, I want to conclude with the discussion about how we ensure that the supervisory process is appropriate for community banks. Regulators are once again working to incorporate tailoring to more effectively allocate supervisory and bank staffing resources. This allows the calibration of supervisory activities that are appropriate to a bank's size, risk, complexity and business model. The approach is not new. We've talked a lot about it today, but it's simply been ignored in recent years. Regulators have significant leeway in designing supervisory approaches, which may include issuing guidance that is technically non-binding, but often plays a role similar to a regulatory requirement. So, how do we address this problem? First, through greater transparency. Supervisory practices often escape public and internal scrutiny. They're developed with little public input and they're not subject to public notice and comment requirements under the Administrative Procedures Act. Supervisory practices are not

scrutinized after an exam because of the activity's designation as confidential supervisory information. CSI includes a broad array of bank and supervisory materials and actions that are taken within the exam context. The Fed continues to revise and redirect our supervisory practices, including the shift in focus toward material financial risk. And these efforts would be most effective if accompanied by revisions to the definition and scope of CSI, which would promote greater public transparency and accountability. Second is the calibration of our supervisory standards. Supervisory findings inform our bank ratings which can have follow-on effects like limiting options for mergers and acquisitions activity, raising the cost of liquidity or diverting resources away from other more important bank management priorities. We need to ensure that supervisory practices are appropriately calibrated so that a bank's supervisory ratings reflect its financial condition and material financial risks. But before we close out today's conference, I'd like to again thank all of you for being with us today. Both those of you who are here in person in Washington and those of you who have joined us online. We appreciate your continued support for community banks across the United States. And I would especially like to thank the community bankers who work tonight tirelessly to support your customers, your local businesses and your local economies.

Thank you for joining us today and taking time out of your schedules to be here, in person. In my role as Vice Chair for Supervision, my responsibilities extend across banks of all sizes. From the largest G-SIBs to a single branch community bank operating in an underserved rural market. The Fed's regulatory and supervisory approaches to this wide range of firms must be tailored to address the unique characteristics of each type and size of institution. A one size fits all approach that pushes down requirements from the larger banks to the smallest ones results in over regulation and excessive supervision that is not appropriate to -- for the bank's

size, risk, complexity and business model, especially for community banks. Today we have the opportunity to right size the frameworks of each size of institutions. And I look forward to working together with my colleagues at the FDIC and the OCC to accomplish this goal, through sensible reforms and more appropriate supervisory approaches. So, thanks again for joining us today and I look forward to keeping in touch.