

United States Senate

WASHINGTON, DC 20510

December 7, 2022

The Honorable Michael J. Hsu
Acting Comptroller
Office of the Comptroller of the Currency
550 17th Street SW
Washington, DC 20219

Dear Acting Comptroller Hsu:

We write to express concern regarding recent revelations of ties between the banking industry and cryptocurrency firms and to inquire about how your agency assesses the risks to banks and the banking system associated with those relationships.

Earlier this month, FTX, what was once the world's second-largest crypto exchange valued at \$32 billion,¹ its sister-company Alameda Research, a crypto trading firm, and 130 other affiliated companies declared bankruptcy.² The sudden implosion of the exchange triggered a contagion that spread across the industry, tanking cryptocurrency values³ and dragging other crypto firms, into similar fates. Last week, for example, BlockFi, the crypto lending firm once valued at \$3 billion,⁴ also declared bankruptcy.⁵ Thankfully, the banking system has been spared of the FTX-induced turmoil. Despite the industry's efforts to gain access to the banking system and the benefits that come with federal recognition from bank regulators, crypto is, so far, not deeply integrated with the traditional banking system.⁶

Nevertheless, it appears that crypto firms may have closer ties to the banking system than previously understood. According to a *New York Times* report, Alameda, which siphoned \$10 billion off the FTX exchange and into its coffers under a scheme coordinated by Sam Bankman-Fried and other FTX and Alameda executives,⁷ made an \$11.5 million investment in Washington

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FTX is not Moonstone Bank's only crypto connection. In fact, Moonstone's parent company, FBH Corp, is headed by the chair of Bahamas-based Deltec Bank, a bank service provider to Tether, a stablecoin issuer and one of FTX's largest trading partners.¹⁰ According to Cointelegraph, "After buying the [nearly 100-year-old] bank in 2020, FBH applied for Federal Reserve approval ... to facilitate cryptocurrency-related transactions. The bank got federal approval in June 2021, and nine months later, FTX invested in the rural bank, now equipped with Federal Reserve approval."¹¹

Moonstone and Deltec are just two of several banks to have their crypto ties come under scrutiny in the FTX fallout, including Silvergate Capital Corp., Provident Bancorp Inc., Metropolitan Commercial Bank, Signature Bank, Customers Bancorp Inc., and others.¹² Many of these small banks relied heavily on their crypto customers and are now experiencing heightened volatility. In the case of Silvergate, crypto deposits accounted for "90% of the bank's overall deposit base, amounting to \$11.9 billion."¹³ Now, average deposits quarter-to-date are down to \$9.8 billion.¹⁴ Deposits are not the only form of exposure these banks have. In 2020, Provident Bank moved into crypto by "ma[king] loans supporting crypto-backed lending, margin trading and crypto-mining operations."¹⁵ Crypto loans accounted for 58% of Provident's equity capital, totaling \$139 million, but is now experiencing potential losses as high as \$27.5 million.¹⁶

Banks' relationships with crypto firms raise questions about the safety and soundness of our banking system and highlight potential loopholes that crypto firms may try to exploit to gain further access to banks.¹⁷ In the case of Moonstone, FTX's investment could be "seen as a move

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While the banking system has so far been relatively unscathed by the latest crypto crash, FTX’s collapse shows that crypto may be more integrated into the banking system than regulators are aware. To better understand the scope of the banking system’s exposure to the crypto industry and how banking regulators currently assess crypto-bank relationships, we ask for answers to the following questions no later than December 21, 2022:

1. In light of recent reporting, do your agencies plan to conduct a review of crypto firms’ relationships with banks?
2. Please describe the process by which your agencies evaluate banks’ relationships with crypto firms and engage in crypto-related activities.
3. Please specify the number and names of banks regulated by your agency which are currently engaged in the following activities:
 - a. Providing cryptocurrency custody services.
 - b. Holding dollar deposits for crypto-related firms.
 - i. Of those banks, please specify the number and names of banks that hold dollar deposits as reserves backing stablecoins.
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 - e. Providing loans to crypto-related firms.
 - i. Of those banks, please specify the number and names of banks that accept digital assets as collateral for loans.
4. For each of the banks listed above, please specify the estimated total dollar volume of the following activities:
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5. Are banks regulated by your agencies engaging in other crypto-related activities, such as trading crypto assets or derivatives? If so, please specify the bank(s), the activities they are engaging in, and the estimated dollar volume of each activity.

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Sincerely,



Elizabeth Warren
United States Senator



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WASHINGTON, DC 20510

December 7, 2022

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Chair
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551

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Elizabeth Warren
United States Senator



Tina Smith
United States Senator

United States Senate

WASHINGTON, DC 20510

December 7, 2022

The Honorable Martin J. Gruenberg
Acting Chair
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429

Dear Acting Chair Gruenberg:

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 - i. Of those banks, please specify the number and names of banks that hold dollar deposits as reserves backing stablecoins.
 - c. Acting as nodes to verify customer payments.
 - d. Facilitating stablecoin payment transactions.
 - e. Providing loans to crypto-related firms.
 - i. Of those banks, please specify the number and names of banks that accept digital assets as collateral for loans.
4. For each of the banks listed above, please specify the estimated total dollar volume of the following activities:
 - a. Providing cryptocurrency custody services.
 - b. Holding dollar deposits serving as reserves backing stablecoins.
 - c. Acting as nodes to verify customer payments.
 - d. Facilitating stablecoin payment transactions.
 - e. Providing loans to crypto-related firms.
5. Are banks regulated by your agencies engaging in other crypto-related activities, such as trading crypto assets or derivatives? If so, please specify the bank(s), the activities they are engaging in, and the estimated dollar volume of each activity.

¹⁷ Letter from Senator Warren to The Honorable Michael J. Hsu, August 10, 2022, <https://www.warren.senate.gov/imo/media/doc/2022.08.10%20Letter%20to%20OCC%20re%20crypto%20guidance.pdf>.

¹⁸ Cointelegraph, “FTX stake in US bank raises concerns about banking loopholes,” Prashant Jha, November 25, 2022, <https://cointelegraph.com/news/ftx-stake-in-us-bank-raises-concerns-about-banking-loopholes>.

¹⁹ Bloomberg, “FTX Received Some Customer Deposits Via Bank Accounts Held by Alameda,” Yueqi Yang and Max Reyes, November 28, 2022, <https://www.bloomberg.com/news/articles/2022-11-28/ftx-received-some-customer-deposits-via-bank-accounts-held-by-alameda?leadSource=verify%20wall>.

6. Did Alameda’s investment in Moonstone Bank constitute “control” for the purposes of the Bank Holding Company Act? If so, did Alameda submit an application to the Federal Reserve to become a bank holding company?
 - a. If Alameda’s investment in Moonstone Bank did not constitute “control” for the purposes of the Bank Holding Company Act, did Alameda receive a formal or informal “noncontrol” determination from either the Federal Reserve Board or any Federal Reserve Bank prior to making its investment?
7. What business relationships did Alameda and/or FTX have with Moonstone Bank and/or its parent holding company?
8. What percentage of Moonstone Bank’s total annual revenues or expenses were generated from its transactions or business relationships with Alameda and/or FTX?
9. Does your agency know where the funds for Alameda Research’s \$11.5 million investment came from? Is there a risk these funds included FTX customer funds, or came from assets received from sources that did not meet Know Your Customer (KYC) guidelines?

Sincerely,



Elizabeth Warren
United States Senator



Tina Smith
United States Senator