

December 19, 2022

The Honorable Senator Elizabeth Warren  
309 Hart Senate Office Building  
Washington, DC 20510

The Honorable Senator John Kennedy  
416 Russell Senate Building  
Washington, DC 20510

The Honorable Senator Roger Marshall  
Russell Senate Office Building, Suite 479A  
Washington, DC 20510

Re: Response to December 5, 2022 Letter

Dear Senators Warren, Kennedy, and Marshall:

I am writing in response to your December 5, 2022 letter seeking “information regarding the relationship between Silvergate Bank (Silvergate) and several crypto firms founded by Sam Bankman-Fried, including Alameda Research LLC (Alameda), FTX US, and FTX Trading Ltd. (FTX).”

Silvergate was incorporated in 1987 and opened for business in 1988. Since 2014, we have provided a safe and reliable banking solution for the digital asset industry. As a regulated and federally-insured depository institution, and as an experienced and responsible actor in the digital asset ecosystem, Silvergate is fully committed to complying with its Bank Secrecy Act (BSA) and Anti-Money Laundering (AML) obligations. Consistent with this commitment, Silvergate has instituted, and consistently updates and improves, a robust compliance and risk management program that spans the life cycle of each client. A significant number of Silvergate’s employees are dedicated to these efforts, and we take our responsibilities very seriously.

We welcome the opportunity to share more about our risk management policies and procedures with you, both generally and as it relates to FTX and Alameda. In compliance with the Bank Secrecy Act and the USA PATRIOT Act, we determine the beneficial owner, the source of funds, and the purpose and expected use of funds for each and every account we open. Silvergate also monitors transaction activity for every account and identifies activity outside of the expected usage. When we identify certain kinds of activity, we are required to confidentially file suspicious activity reports, and we do so routinely. We have a track record of closing accounts that are used for purposes outside of their expected use.

This is no small undertaking. We have invested, and will continue to invest, in systems, procedures, and personnel to help ensure we are conducting effective customer due diligence and monitoring. And, as our customers can attest, the onboarding process can take weeks as a result of the time we spend gathering and reviewing information and documentation from prospective customers. After accounts are open, we continue to monitor account activity as part of our enhanced due diligence process on each of these accounts and to take action when there are red flags.

Your letter presents several specific questions related to FTX and Alameda, which we will endeavor to answer to the best of our ability, consistent with our obligations under all applicable laws.

- 1. Were you aware that FTX was directing its customers to wire money to Alameda's account with your bank?**
  - a. If so, when did you become aware of this? What was your response?**
  - b. How much in FTX-directed customer funds were sent to your bank? Please provide a monthly summary of all such funds for each month from 2019 to the present.**
  - c. Why did your bank's BSA compliance program fail to identify this as a reportable concern?**

At Silvergate, we understand and share the concerns being widely expressed that FTX apparently was directing its customers to wire money to Alameda's accounts. Following recent media reports on this issue, we commenced a review of the transactions involving accounts associated with FTX and/or Alameda. That review is ongoing.

We are unable to respond to your inquiry regarding our BSA compliance program as it relates to any of these accounts because, as you are aware, whether that program did or did not identify concerns with specific accounts and/or transactions constitutes confidential supervisory information as defined by 12 CFR § 261.2 that Silvergate is prohibited by law from disclosing pursuant to 12 C.F.R. § 261.4. Furthermore, as you also are aware, federal law prohibits Silvergate from disclosing information that could reveal the existence or non-existence of a suspicious activity report pursuant to 31 C.F.R. § 1020.320(e)(1)(i).

- 2. Did Silvergate flag as suspicious the movement of funds to Alameda accounts or between Alameda accounts and FTX or FTX-affiliate accounts?**
  - a. If so, did Silvergate file any Suspicious Activity Reports to the FinCEN regarding those transactions?**
  - b. If not, why did your bank's BSA compliance program fail to identify these transactions as suspicious?**

In accordance with our risk management policies and procedures, Silvergate conducted significant due diligence on FTX and its related entities, including Alameda Research, both during the onboarding process and through ongoing monitoring. We are unable to respond to your specific inquiry regarding suspicious activity reports filed as part of our BSA compliance program because, as you are aware, Silvergate is prohibited from disclosing whether that program did or did not identify concerns with specific accounts and/or transactions and did or did not file suspicious activity reports pursuant to 31 C.F.R. § 1020.320(e)(1)(i).

- 3. Before November 11, 2022, were you aware that Alameda Research LLC was a distinct company from FTX and its subsidiaries?**
  - a. If so, when did you become aware of this?**
  - b. If not, why did your bank's BSA compliance program fail to clarify the identities of these institutional clients?**

Alameda Research LLC opened an account with Silvergate in 2018, prior to the founding of FTX.

- 4. Has Silvergate ever undergone an independent audit of its BSA/anti-money laundering (AML) compliance program?**

- a. **If so, please provide the results of all such audits.**
- b. **If not, please provide the bank's rationale for not undergoing an independent audit as well as the results of all of the internally conducted audits of the bank's BSA/AML compliance program.**

Like all regulated banks, Silvergate is subject to (at least) annual exams conducted by its safety and soundness regulator (in the case of Silvergate, the Federal Reserve) and annual audits conducted by independent auditors, both of which analyze Silvergate's BSA/AML compliance program. We are unable to provide the results of any of our BSA/AML compliance program audits because, as you are aware, those audits constitute confidential supervisory information as defined by 12 CFR § 261.2 that Silvergate is prohibited by law from disclosing pursuant to 12 C.F.R. § 261.4.

5. **Did Silvergate have any communications with representatives from Alameda, FTX, or FTX-affiliated entities regarding concerns about the transfer of funds into Silvergate? If so, please describe the timing and nature of all such communications. Please provide copies of any electronic mail or other communications relating to these concerns.**

As I have noted, Silvergate conducted significant due diligence on FTX and its related entities, including Alameda Research, both during the onboarding process and through ongoing monitoring, in accordance with our risk management policies and procedures. We are unable to respond to your inquiry in any greater detail because, as you are aware and noted above, federal law prohibits Silvergate from disclosing whether it identified concerns with specific accounts and/or transactions and how Silvergate may have responded to any such concerns pursuant to 31 C.F.R. § 1020.320(e)(1)(i).

6. **Why did Silvergate replace Tyler Pearson as Chief Risk Officer?**

On November 7, 2022, in order to best align and leverage its internal resources, Silvergate engaged in a significant management restructuring that was unrelated to job performance by any particular executive and extended well beyond Mr. Pearson. This management restructuring included changes in titles and responsibilities for many executives at Silvergate, including executives both senior and junior to Mr. Pearson. For example, our Chief Strategy Officer, Ben Reynolds, became Silvergate's President, and our Chief Operating Officer, Kate Fraher, was reassigned to the Chief Risk Officer position. Mr. Pearson, who had reported directly to Ms. Fraher when she was the Chief Operating Officer, accordingly became Deputy Chief Risk Officer and continues to report to Ms. Fraher. Mr. Pearson remains an important part of the risk management team at Silvergate.

7. **Please provide full copies of the results of Silvergate's most recent internal liquidity stress tests and interest rate sensitivity analyses.**

Because ensuring that our customers' deposits are safely held is of paramount importance to Silvergate, we intentionally carry cash and securities in excess of our digital asset related deposit liabilities. Moreover, Silvergate regularly assesses its liquidity, interest rate sensitivity, and many other key financial and operational metrics and discusses these and other matters with its regulators. In addition to implicating the prohibition on disclosing confidential supervisory information, it would be inappropriate for Silvergate to share confidential, proprietary, and non-public financial information like

liquidity stress tests and interest rate sensitivity analyses outside the well-understood structure of securities filings and periodic financial statements, as required for all publicly-traded companies.

**8. What economic scenarios have you accounted for in your internal capital planning models since January 1, 2019? Please include the values of individual macroeconomic variables used in these scenarios. Please also include the assumptions your models make regarding crypto market trends.**

Our business is designed to accommodate deposit inflows and outflows under a range of market conditions, and Silvergate accounts for a broad range of economic scenarios in its capital planning models and discusses these and other matters with its regulators on a regular basis. In addition to implicating the prohibition on disclosing confidential supervisory information, it would be inappropriate for Silvergate to share confidential, proprietary, and non-public financial information like this outside the well-understood structure of securities filings and periodic financial statements, as required for all publicly-traded companies.

I hope this information is helpful as you continue to examine FTX's collapse. The last several weeks have been challenging for the digital asset industry. Please be assured that our business was built to support our customers not only during periods of growth but also in periods of volatility, and we remain steadfast in that commitment.

Sincerely,



Alan J. Lane  
Chief Executive Officer  
Silvergate Bank