

Federal agencies team up for a joint statement on crypto risks to the banking industry

Article

The news: The Federal Reserve, the Federal Deposit Insurance Corporation (FDIC), and the Office of the Comptroller of the Currency (OCC) came together to release the first-ever joint

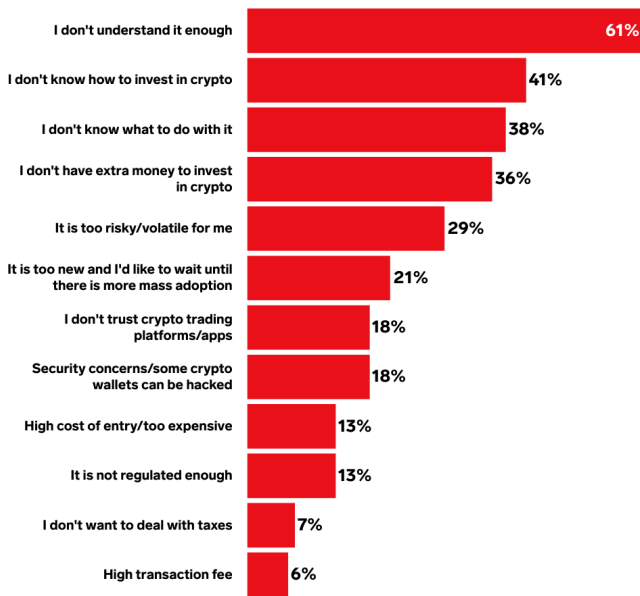
statement on the risks of the crypto market to the banking system, per a [press release](#).

Key risks: The statement began by acknowledging the harrowing year the crypto industry has just faced. As the agencies dealt with successive challenges, they compiled a list of risks that banks must consider before engaging in crypto activities. The final list includes:

- Fraud and other scams run by crypto industry participants.
- Uncertainties surrounding legalities, especially regarding asset custody, redemptions, and ownership rights.
- Misleading representations and disclosures about crypto assets, such as federal deposit insurance.
- Volatility in crypto markets which drastically affects digital assets' value and the volume of deposits at crypto firms.
- The susceptibility of stablecoins to runs.
- Contagion risk within the sector and at banks that engage in crypto activities.
- The lack of mature risk management and governance practices in the crypto sector.
- The lack of regulations, standards, and clear roles and responsibilities within the sector, and the threat of cyber attacks and other illicit financial activity, such as money laundering.

Reasons US Adults Have Not Purchased Cryptocurrency, Oct 2022

% of respondents



Note: n=1,403

Source: Bakkt, "US Crypto Study: Wave 1," Dec 13, 2022

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A not-so-firm stand: The joint press release is the closest thing to a formal stance that US regulators have taken on the crypto sector. **But the statement fell short of specific guidance for banks wishing to engage in the digital asset markets.**

- The agencies expressed how vital it is to keep these risks separate from the traditional banking system. But each agency has its own process for analyzing banks' requests to engage in crypto activities. Agencies review each request on a case-by-case basis.
- The agencies also stated that while **they don't prohibit or discourage banks from engaging in crypto activities**, they're continuously assessing the risks to determine how banks can safely engage.
- Despite the hesitancy to condemn banks' activity in the digital asset markets, the agencies said that, **in the current environment, dealing in crypto assets doesn't align with safe and sound banking practices.**

Notable absences: Tensions ran high among all regulators last year regarding which agency had regulatory authority over digital assets. Though the joint statement is the first demonstration of federal banking agencies working together, a few agencies were notably missing from the press release. The Securities and Exchange Commission (SEC), the

Commodity Futures Trading Commission (CFTC), and the Consumer Financial Protection Bureau (CFPB) weren't part of the statement, but each has made a play at power.

- The SEC [doubled the size](#) of its Crypto Assets and Cyber Unit in May 2022, and SEC Chair Gary Gensler has been outspoken on his view that crypto assets should be [classified as securities](#).
- Meanwhile, a case has been made for the CFTC to be the [main regulator](#) of digital assets under a new asset classification called “digital commodity.”
- Late last year, the CFPB entered the mix when it opened an investigation against Nexo Financial on the grounds of [consumer protection violations](#).

Our take: The fallout of the FTX collapse is putting pressure on regulators to finally lay out formal guidance and rules for banks and crypto firms. Until now, regulators have taken a casual approach to crypto regulation by making informal statements or occasionally asserting authority through investigations. This formal press release could foreshadow something more concrete that's still to come. But without all agencies acting in concert, their power struggle will override any attempt at reining in the crypto sector.

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