

# United States Senate

WASHINGTON, DC 20510

December 7, 2022

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

Dear Chair Powell:

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,<sup>1</sup> its sister-company Alameda Research, a crypto trading firm, and 130 other affiliated companies declared bankruptcy.<sup>2</sup> The sudden implosion of the exchange triggered a contagion that spread across the industry, tanking cryptocurrency values<sup>3</sup> and dragging other crypto firms, into similar fates. Last week, for example, BlockFi, the crypto lending firm once valued at \$3 billion,<sup>4</sup> also declared bankruptcy.<sup>5</sup> 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.<sup>6</sup>

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,<sup>7</sup> made an \$11.5 million investment in Washington

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state-based Moonstone Bank, more than double the bank's worth at the time.<sup>8</sup> According to a former president of the Independent Community Bankers of America, "The fact that an offshore hedge fund that was basically a crypto firm was buying a stake in a tiny bank for multiples of its stated book value should have raised massive red flags for the F.D.I.C., state regulators and the Federal Reserve...It's just astonishing that all of this got approved."<sup>9</sup>

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.<sup>10</sup> 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."<sup>11</sup>

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.<sup>12</sup> 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."<sup>13</sup> Now, average deposits quarter-to-date are down \$9.8 billion.<sup>14</sup> 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."<sup>15</sup> 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.<sup>16</sup>

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.<sup>17</sup> 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.
  - 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.
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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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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,



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Elizabeth Warren  
United States Senator



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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:

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,<sup>1</sup> its sister-company Alameda Research, a crypto trading firm, and 130 other affiliated companies declared bankruptcy.<sup>2</sup> The sudden implosion of the exchange triggered a contagion that spread across the industry, tanking cryptocurrency values<sup>3</sup> and dragging other crypto firms, into similar fates. Last week, for example, BlockFi, the crypto lending firm once valued at \$3 billion,<sup>4</sup> also declared bankruptcy.<sup>5</sup> 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.<sup>6</sup>

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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.<sup>12</sup> 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."<sup>13</sup> Now, average deposits quarter-to-date are down \$9.8 billion.<sup>14</sup> 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."<sup>15</sup> 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.<sup>16</sup>

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Sincerely,



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Elizabeth Warren  
United States Senator



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Tina Smith  
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# 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

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tapped-into-customer-accounts-to-fund-risky-bets-setting-up-its-downfall-11668093732.

<sup>8</sup> The New York Times, "Crypto Firm FTX's Ownership of a U.S Bank Raises Questions," Stephen Gandel, November 23, 2022, <https://www.nytimes.com/2022/11/23/business/ftx-cryptocurrency-bank.html>; Moonstone Bank, "FBH Corp. raises \$11.5M in private equity funding from Alameda Research Ventures," press release, July 22, 2022, <https://www.moonstonebank.com/post/fbh-corp-raises-11-5m-in-private-equity-funding-from-alameda-research-ventures>.

<sup>9</sup> The New York Times, "Crypto Firm FTX's Ownership of a U.S Bank Raises Questions," Stephen Gandel, November 23, 2022, <https://www.nytimes.com/2022/11/23/business/ftx-cryptocurrency-bank.html>.

<sup>10</sup> *Id.*

<sup>11</sup> 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>.

<sup>12</sup> The Washington Post, "These Banks Were Left Holding the Bag in Crypto Implosion," Marc Rubenstein, November 23, 2022, [https://www.washingtonpost.com/business/these-banks-were-left-holding-the-bag-in-crypto-implosion/2022/11/22/b8de2096-6a2b-11ed-8619-0b92f0565592\\_story.html](https://www.washingtonpost.com/business/these-banks-were-left-holding-the-bag-in-crypto-implosion/2022/11/22/b8de2096-6a2b-11ed-8619-0b92f0565592_story.html).

<sup>13</sup> *Id.*

<sup>14</sup> *Id.*

<sup>15</sup> *Id.*

<sup>16</sup> The Washington Post, "These Banks Were Left Holding the Bag in Crypto Implosion," Marc Rubenstein, November 23, 2022, [https://www.washingtonpost.com/business/these-banks-were-left-holding-the-bag-in-crypto-implosion/2022/11/22/b8de2096-6a2b-11ed-8619-0b92f0565592\\_story.html](https://www.washingtonpost.com/business/these-banks-were-left-holding-the-bag-in-crypto-implosion/2022/11/22/b8de2096-6a2b-11ed-8619-0b92f0565592_story.html).

to bypass the requirements of owning a banking license in the U.S.”<sup>18</sup> We now know that FTX also had “accessed regulated banks otherwise out of reach to the crypto exchange” by receiving customer deposits through Alameda’s bank accounts.<sup>19</sup>

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.
  - 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.

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<sup>17</sup> 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>.

<sup>18</sup> 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>.

<sup>19</sup> 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=uverify%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,



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Elizabeth Warren  
United States Senator



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Tina Smith  
United States Senator