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July 16, 2021

James P. Sheesley, Assistant Executive Secretary
Attn: Comments-RIN 3064-ZA25
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429

Via Electronic Submission

RE: Request for Information and Comment on Digital Assets (RIN 3064-ZA25)

Dear Mr. Sheesley:

Thank you for the opportunity to provide comments on the topic of current and potential digital asset use cases. This letter outlines the viewpoints of FirstBank, an Insured Depository Institution headquartered in Lakewood, Colorado. FirstBank is a member of the Federal Reserve Bank with over $26 Billion in assets and operates more than 110 bank branches throughout Colorado, Arizona, and California.

Current and Potential Use Cases

FirstBank is not currently pursuing any use cases as it relates to digital assets. As noted in FDIC's overview, there are a number of very different categories that digital assets and potential services associated with those assets fall into. Holding reserves for a digital asset exchange company is very different than pursuing decentralized financing or margin lending. As such, we feel it is important that the FDIC work to define the term "digital asset" whenever it provides regulatory guidance or implements policies.

We have not heard significant customer demand for digital asset activities at present, but where we see the biggest opportunities are in technology solutions such as distributed ledgers; liability-based activities, such as holding digital asset reserves; wholesale payments such as bank to bank transfers; or partnerships with digital asset exchanges, where the bank may provide for rewards, paid in certain cryptocurrency or the easy facilitation of account to account transfers, via open banking principles.

Risk and Compliance Management

Although FirstBank is not pursuing digital asset solutions, the entrance of this type of asset class into the greater financial market impacts all financial institutions. Bank customers are listing digital asset holdings on their financial statements, we are facilitating transfers of funds into digital asset exchanges and lending to customers who may have liabilities that are not visible via traditional underwriting and documentation avenues.

We believe that banks have the robust compliance and risk management systems to manage many use cases associated with digital assets. The holding of dollars, to act as reserves for stablecoin or other digital asset firm needs is easily adopted into the current banking system. Custodial activities, such as providing digital asset safekeeping or acting as a qualified custodian also fit into the mold of banks that provide similar services for other asset classes.

There are some places where additional guidance may be warranted. For example there are clear anti-money laundering expectations around the establishment of a digital asset wallet. What is not clear is the expectation to identify the recipient of funds when forwarding custodial bitcoin to a private wallet. Another potential challenge is in custody: if a bank acts as the executor of a will, how does it gain custody of a digital asset, what are the implications of that custody, and ultimately how is the trade executed?

There are unique risks present with digital assets, one of which has largely been unaddressed – consumer protection. Although many of the digital asset service providers may be outside the supervision of the FDIC we feel it is critical, to the extent possible, that the FDIC and other regulators implement the same oversight and consumer protection to consumers accessing digital asset services that is applied to banks. As non-bank technology firms begin offering banking products and services via their channels, the FDIC should coordinate with other regulators to ensure those activities are appropriately assessed for risk and continuously supervised or otherwise monitored.

Supervision and Activities

As incentives drive behavior, it is important that the FDIC consider the potential impact its supervision or non-supervision can have in driving behavior towards shadow banking, outside the safe and sound banking system that exists today. For example staking and margin trading are done with promises of high returns to consumer, with zero regulatory required consumer disclosures or oversight. In today's interest rate environment, consumers may flock to the promise of high returns, outside of the banking system. It is important that financial technology firms and banks be held to similar standards in terms of disclosures, consumer protections, and regulatory oversight in these areas.

Deposit Insurance

We feel the FDIC should consider a 'negative disclosure' to allow consumers to distinguish between uninsured digital asset products and insured deposits. It is not as impactful to only require the disclosure of FDIC insurance on insured deposits and would be more distinct to a consumer, to require firms without the benefit of the insurance fund to disclose that fact.

Conclusion

We feel that the world of digital assets is exciting and may have significant impacts in the financial industry in the future. With any new invention or product, it is prudent for the FDIC and its fellow regulators to take the appropriate time to thoroughly investigate the potential impacts of introducing digital assets into the current banking system. We feel it is important for the FDIC to work with other regulators to classify and identify digital assets into categories; this provides clarity for banks to select which areas may best serve their customers and understand the appropriate controls or risks associated with those categories. We feel it is also important to thoroughly investigate firms utilizing the banking payment systems or services to ensure the continued safety and soundness of the United States banking system. Lastly, we feel that consumer protection needs to be inserted into the digital asset universe as anti-money laundering is not the only risk this new type of assets presents to the banking system.

The FDIC plays an instrumental role in driving regulatory consistency, consumer protection, and a safe and sound banking system. Thank you for the opportunity to provide feedback for how digital assets could be considered in the future of banking. If you have any questions or need clarification on any issue(s) raised, please contact me at (303) 235-1041.

Sincerely,

Kelly Kaminskas
President – Retail Services
FirstBank