

From: Howard Seibel <Howard.Seibel@tassat.com>
Sent: Wednesday, July 14, 2021 4:10 PM
To: Comments
Cc: Isabelle Ferreira; Ron Totaro
Subject: [EXTERNAL MESSAGE] Request for Information and Comment on Digital Assets (RIN 3064-ZA25)

Dear Mr. Sheesley:

Please see below for comments about digital assets from my company, Tassat. We are happy to answer any questions you or your staff may have.

Thank you,
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Introduction

Tassat Group Inc. (www.tassat.com) is a New York-based fintech company that provides a blockchain-based business-to-business (B2B) payments platform, TassatPay®, for midsize and smaller U.S. banks to offer their business customers. Bank customers use TassatPay to send and receive B2B payments in real-time, 24/7/365 without incurring third-party fees or delays related to legacy bank transfer mechanisms such as Fedwire and ACH.

The following responses are based on firsthand experience and insights that Tassat has gained from 2 ½ years of operating TassatPay plus our discussions with the CEOs of over 60 midsize and smaller banks (between \$5 billion and \$200 billion in deposits) around digital asset technologies and the future of B2B payments.

The first client of the TassatPay platform was Signature Bank (NY), which began using the TassatPay platform in January of 2019. Tassat recently announced it will be adding additional banks to its platform, with Customers Bank (PA) next. For now, the users of TassatPay are business banking customers at these institutions. Since launch, TassatPay has processed billions of dollars in payments for hundreds of businesses.

The TassatPay platform tokenizes U.S. Dollar bank deposits and the resulting tokens are backed dollar-for-dollar by deposits at FDIC-insured banks. The platform performs an automated, real-time audit that validates that the number of tokens on the private-permissioned Ethereum-based blockchain exactly matches the backing deposits held at the

banks. Additionally, TassatPay banks offer the TassatPay API, which enables bank customers to build TassatPay payment capabilities into their own applications.

Contact:

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Questions and Tassat Responses

Question 1

In addition to the broad category of digital assets and related activities described above, are there any additional categories or subcategories that IDIs are engaged in or exploring?

Response

Facilitating real-time payments through the tokenization of fiat currencies can be considered as part of the broader 'settlement' umbrella. Availability of T+0 technology has made real-time settlement capabilities and delivery vs. payment ("DvP") useful for banks and their partners. Smart contracts and blockchain technology have been identified as useful tools for achieving this, providing financial institutions this capability and automating internal processes in transaction execution and monitoring.

Additionally, the extension of these capabilities to external payment processes related to business banking clients and how they transact with their trading partners should come into consideration. There is a lot of potential growth in this sector, primarily in specific verticals such as real estate, which requires particular transaction flows. Digital wallets are also an area of interest for banks as they provide additional functionality and flexibility regarding payment processes.

Question 2

What, if any, activities or use cases related to digital assets are IDIs currently engaging in or considering? Please explain, including the nature and scope of the activity. More specifically:

1. What, if any, types of specific products or services related to digital assets are IDIs currently offering or considering offering to consumers?
2. To what extent are IDIs engaging in or considering engaging in activities or providing services related to digital assets that are custodial in nature, and what are the scope of those activities? To what extent are such IDIs engaging in or considering secondary lending?
3. To what extent are IDIs engaging in or considering activities or providing services related to digital assets that have direct balance sheet impacts?

4. To what extent are IDIs engaging in or considering activities related to digital assets for other purposes, such as to facilitate internal operations?

Response

Tassat has found that large and midsize companies experience difficulties and inefficiencies related to managing their internal treasury and operations. These inefficiencies are largely due to the costs and delays associated with legacy money transfer methods.

Payments leveraging blockchain technology can be used by businesses to facilitate the real-time and efficient transfer of tokenized assets (starting with U.S dollars, but potentially extending to additional currencies and assets) in corporate treasuries. Banks are looking for innovative service offerings for their corporate clients, including specific payments technology to facilitate real-time payments that have no transaction size limits. Blockchain technology, bank digital currencies (BDCs), and stablecoins provide this functionality, and as a result, banks are taking these technologies into consideration.

Question 3

In terms of the marketplace, where do IDIs see the greatest demand for digital asset related services, and who are the largest drivers for such services?

Response

Tassat is seeing interest among forward thinking banks in exploring new business verticals, including attracting digital asset exchanges as clients. Tokenized payments are playing an important role in these growth activities. While any business that needs to send or receive payments quickly or outside of traditional banking hours can benefit from the real-time nature of tokenized payments. Firms transacting with digital assets especially benefit.

With real-time payments, the customers of digital asset exchanges have the option of immediate funding to their accounts, previously taking 2-3 days to fund via ACH/Wire. Digital asset trading firms are also able to settle trades much more efficiently, which is critical because digital asset exchanges trade 24/7/365.

Tokenizing U.S. Dollars that are held in FDIC-insured accounts at regulated banks, offers meaningful improvement to the U.S. banking payments infrastructure. Tokenized U.S. Dollars can be used in smart contracts, which automate a variety of manual processes. All movements of digitized dollars are tracked immutably on a private, permissioned Ethereum blockchain, offering regulators and the FDIC full transparency on the movement of funds if they host a node or gain access to bank-hosted nodes.

Truly stable, bank-backed and federally insured tokenized U.S. Dollars offer the U.S. banking system the most effective way to bring the capabilities of digital currencies to the U.S. Dollar.

Question 4

To what extent are IDIs' existing risk and compliance management frameworks designed to identify, measure, monitor, and control risks associated with the various digital asset use cases? Do some use cases more easily align with existing risk and compliance management frameworks compared to others? Do, or would, some use cases result in IDIs' developing entirely new or materially different risk and compliance management frameworks?

Response

The use of Bank Digital Currencies that are backed 1:1 with U.S. Dollars on deposit at regulated banks is as stable and compliant as the U.S. banking system itself. It is worth noting that there is a difference between some stablecoins and digitized dollars created within a bank ecosystem on a private, permissioned based blockchain. With the latter, the funds do not leave the bank network as they sit in a FDIC-insured omnibus account within the bank.

Currently, there are stablecoins that do not have a 1:1 relationship with the U.S. Dollar, as monthly audits of the top stablecoin providers have demonstrated. These types of stablecoins pose risk as they reside outside of the bank networks and are not FDIC-insured. Tassat is instead modelling a digitized version of a Dollar, with the Dollar and the institutions being protected and compliant. Even though stablecoins are intended to keep a 1:1 relationship with the underlying fiat currency, market dynamics outside of a traditional financial institution make them function more like a security.

A compliance framework regarding real-time monitoring of the 1:1 relationship with the reserve assets held in an omnibus account has proven to be the safest way to transact with digital dollars.

Question 5

What unique or particular risks are challenging to measure, monitor, and control for the various digital asset use cases? What unique controls or processes are or could be implemented to address such risks?

Response

With the introduction of digital assets, banks must have the necessary infrastructure, interfaces, and controls to address compliance, operational, and security risks. Administrative functionality that allows transparency, approval workflows, and a macro view of all accounts and transactions is an important component of managing and monitoring risk associated with digital asset use cases.

Question 6

How are IDIs integrating, or how would IDIs integrate, operations related to digital assets with legacy banking systems?

Response

IDIs can take the approach of integrating digital payment capabilities with a bank's core systems, such as FIS, Fiserv and Jack Henry, to enable one-to-one tokenization of U.S. Dollars from deposit accounts and redemption of tokens from digital wallets back to deposit accounts. This integration provides real-time auditability and reconciliation with blockchain data and a bank's core systems. The integration can be easily achieved with API connectivity from core systems to the Ethereum blockchain.

Once again, the digital wallet is governed by the smart contracts and stored in a private, permissioned blockchain. The dollars that back the tokenized payments never leave the bank's banking ecosystem.

Question 7

What unique benefits to operations do IDIs consider as they analyze various digital asset use cases?

Response

As IDIs consider various digital asset use cases, they are primarily focused on deposit growth and benefits that come with providing additional liquidity to commercial clients and their trading partners. By providing a 24/7/365 instant payments platform, banks avoid the shortcomings of the existing rails such as overnight settlement, processing

delays, payment limits and cut-off times. From an operations perspective, bank admins can have access to an administration portal where client onboarding, wallet creation, DDA account mapping and user permissions is managed and controlled. This provides additional visibility and overview of blockchain balances as well as DDA balances, which are always in-sync.

Question 8

Please identify any potential benefits, and any unique risks, of particular digital asset product offerings or services to IDI customers.

Response

The benefit of a blockchain-enabled instant payments platform is that it is always on, 24x7x365. There are no cut-off times, overnight processing or restrictions on payment limits. Business banking customers can send and receive funds nearly instantly, which is immensely useful for cash management.

Risk is minimal because the funds do not leave the banks' ecosystem (in other words, the tokenized dollars move between wallets within the bank) and the platform provides for real-time auditability and reconciliation, along with an admin interface where bank operations and regulators can monitor the transactions by hosting a node.

Question 11

Are there any areas in which the FDIC should clarify or expand existing supervisory guidance to address digital asset activities?

Response

In January 2021, the OCC issued guidance allowing federally chartered banks to participate in independent node verification networks and use stablecoins for payment activities. This guidance offered clarity for banks and removed any legal uncertainty in stablecoin transactions.

It is recommended that both the OCC and the FDIC ensure stablecoins are audited on a consistent basis to reduce operational, compliance risk and fraud. The proposed STABLE Act intends to regulate stablecoin issuers by requiring them to obtain bank charters and place reserve funds, equivalent to the figure for their stablecoin issues, with the Federal Reserve. Stablecoins by definition, can be backed by fiat currencies or cryptocurrencies, with crypto-backed stablecoins posing more risk than fiat-backed stablecoins.

The industry would benefit from clarity from the FDIC regarding the types of stablecoins in which banks are authorized to transact, as well as guidance on how often reserves should be audited to ensure a 1:1 ratio. TassatPay, for example, provides an Ethereum layer on top of each FDIC-insured bank's core banking system, ensuring that tokenized transactions on the TassatPay network are consistently audited every few milliseconds.

Question 14

Are there any steps the FDIC should consider to ensure customers can distinguish between uninsured digital asset products on the one hand, and insured deposits on the other?

Response

Auditing, reviewing, and approving each depository institution and labeling it "FDIC Insured" would help give customers and banks added confidence, helping to promote adoption. In addition, allowing a network of FDIC-

insured digital asset custodians and bank partners to transact amongst each other on private blockchains would enable efficiencies and encourage use of FDIC-insured digitized dollars.

Question 15

Are there distinctions or similarities between fiat-backed stablecoins and stored value products where the underlying funds are held at IDIs and for which pass-through deposit insurance may be available?

Response

Stablecoins are very often not completely stable. This was recently outlined in "Bank for International Settlements Working Paper 905, Stablecoins: risks, potential and regulation" (<https://www.bis.org/publ/work905.htm>) on page 8 where the authors show price historical fluctuations of existing stablecoins.

There is a fundamental difference between a bank-managed, fully-backed and insured "digital dollar" and many stablecoins. We believe a true stablecoin should be bank-backed, dollar-for-dollar, proven by real-time, electronic auditing. We believe that augmenting the existing banking system with the tools and technology behind digital currencies is the most effective way of unlocking the potential of stablecoins for payments.