

# JBNV HOLDING CORP

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Response to  
*Request for Information and Comment on Digital Assets*  
**RIN 3064-ZA25**  
**Federal Deposit Insurance Corporation**  
*July 16<sup>th</sup>, 2021*

Chairman Jelena McWilliams  
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*Submitted on July 16, 2021 via electronic mail to [comments@fdic.gov](mailto:comments@fdic.gov)*

## **INTRODUCTION**

JBNV Holding Corp (“we” or “JBNV”) is pleased to provide this response (the “Response”) to the Federal Deposit Insurance Corporation’s (“FDIC”) Request for Information and Comment on Digital Assets, RIN Number 3064-ZA25 (the “RFI”).<sup>1</sup> JBNV welcomes and supports the FDIC’s thoughtful approach to requesting information and comment on digital assets in the financial services industry, particularly as they relate to insured depository institutions (“IDI” or “IDIs”).

JBNV is a single-bank holding company that owns a small community bank in Las Vegas, Nevada – GenuBank, f/k/a Kirkwood Bank of Nevada. As a small community bank, we are heavily focused on the continuing vitality of the country’s community banking system. In furtherance of that goal, we are developing digital asset technology infrastructure that will (1) better serve the evolving financial services needs of retail customers and (2) empower community banks to compete with global financial institutions through the licensing of proprietary,

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<sup>1</sup> Sheesley, J. (2021, May 17). *Federal Deposit Insurance Corporation Request for Information and Comment on Digital Assets*. Federal Deposit Insurance Corporation.

blockchain-based digital asset infrastructure. We are pursuing these objectives so that community banks can empower their customers to access the next evolution of financial services safely, securely, and in a cost-effective manner.

The challenges currently facing small community banks are well known and largely result from the inability to compete with larger financial institutions on a technology level. It is cost-prohibitive for many community banks to develop and implement the latest technologies. As such, these banks become stuck in a vicious cycle of being unable to afford technology advances while failing to develop the products and services necessary to grow customer bases and deposits, which often causes a slow and steady decline. We believe that providing certain digital asset products and services while leveraging permissionless blockchain networks will reverse community banking's competitive disadvantage when it comes to technology and allow community banks across the country to thrive. We firmly believe that a strong and robust community banking industry is vital for customers seeking choice in financial services.

Blockchain technology is ushering in a new era of robust transparency and fairness in the financial services ecosystem. Permissionless networks hold the promise of incredible efficiency gains while simultaneously lowering costs for banks and, by extension, customers. But even more importantly, the technology has the potential to redefine how value is stored, maintained, and exchanged over the internet in ways that place the individual on equal footing with financial institutions when it comes to currency, financial assets, and financial data. We believe that empowering individuals to directly own and control their financial data and digital assets is a public policy that lawmakers and regulators should embrace wholeheartedly. Doing so will encourage the development and adoption of a true safe and secure open-banking system that will spur dramatic financial inclusion and level the playing field for all IDIs.

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A critical feature of permissionless public blockchain technology is that the network is already built and the cost to operate the network is borne by a global community of participants. Put differently, smaller community banks can now compete with larger financial institutions using public blockchain technology because the cost to create and maintain the network has been paid. The resource advantages that larger financial institutions<sup>2</sup> have over smaller community banks through the creation and maintenance of robust private infrastructure networks is lessened with public blockchain technology. If smaller banks can leverage blockchain technology effectively, they will be able to offer a wide variety of products and services in-house instead of losing customer to big banks while simultaneously having to rely on an ever-growing number of fintech partnerships to compete.

Our core belief is that we in the banking business are all better served by innovation through competition. We have seen over and over again that a lack of innovation and competition leads to massive consolidation in the banking industry among a handful of participants, which in turn results in inefficiencies, higher costs, a lack of choice for banking customers, and in some cases, exclusion from financial services all together. So, when a new technology emerges that holds the promise to solve these issues, thoughtful regulation must balance oversight with opportunity. We appreciate the FDIC's willingness, as a first step, to request that the industry provide information

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<sup>2</sup> In 2019, community banks BB&T and SunTrust partnered on a \$66 million deal to be in a "better position to invest in cyber defense, compete on mobile, and automate existing systems." Meanwhile, in 2018, both Bank of America and JP Morgan Chase committed \$16 billion and \$10.8 billion, respectively, to investing in technology for their operations.

**Source:** Rooney, K. (2019, Feb. 07). *How technology drove the 'distrust or be disrupted' choice of Suntrust-BB&T deal, and why there more on the way.* CNBC.

From 2017 to 2019, JP Morgan alone spent \$900 million purchasing payments-related companies to improve the banking giant's own payments ecosystem.

**Source:** Rooney, K. (2019, Sep. 15). *Wall Street banks are upping bets on their potential fintech competitors.* CNBC.

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and insight to better understanding the industry's and its customers' interests in digital assets.

### **RESPONSE TO RFI**

**Question 1. “In addition to the broad categories of digital assets and related activities described [in the RFI], are there any additional or alternative categories or subcategories that IDIs are engaged in or exploring?”**

Today, digital assets are similar to traditional financial assets in that they can be used for payments, asset-backed lending, or interest-bearing deposits. However, we encourage the FDIC to think about digital assets more broadly. Digital assets soon will include more than pure financial instruments. They will include any type of digital asset that can be monetized, like your digital identity, bringing them within the orbit of the financial services industry.

Today, your digital identity is not yours. It is scattered and siloed in different servers controlled by your bank, your social media company, your email provider, or your e-commerce app of choice. Public blockchain technology is on the verge of fundamentally changing what it means to have a digital identity so individuals will own and control their digital identity, and with it all digital data associated with that identity, across the entire internet.

As is well known, today's version of the Internet has a trust problem. We cannot trust that an individual transacting online is who they say they are unless some centralized party, like an IDI, validates the identity of an individual prior to letting that customer into the IDIs technology ecosystem. In this example, the bank serves as the trusted party. However, the trade-off is that once the bank validates identity, the customer can only use that validation within that bank's closed network, the customer must constantly hand over personal data to the bank while being restricted on how he or she can access and use it, and the customer is limited to using the bank's products and services (if approved). This model lacks meaningful competition and leads to outcomes where the customer is not receiving the best available financial services and the best possible pricing.

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Additionally, this centralized model extracts data generated by individuals that engage in financial services. That asset has tremendous value for third party businesses offering financial services, but little value to the customer because current technology does not allow the customer to control or monetize their data. Those overwhelmingly succeeding with this model have acquired the most customers, but on terms that are onerous, restrictive, and expensive.<sup>3</sup> Competition lags and customers tend to stay with one bank because switching costs are high.<sup>4</sup> This race toward centralization has continued unabated causing global banking profits to skyrocket while simultaneously limiting most customers' financial opportunity and inclusion.<sup>5</sup>

Public blockchain technology changes this and returns the asset, and its financial benefits, to the individual owner through the adoption of self-sovereign identities (“SSI” or “SSIs”) owned and controlled exclusively by the individual.<sup>6</sup> SSIs will serve as the trusted technology to confirm identity for any electronic transaction occurring on the Internet replacing third-party validators entirely.<sup>7</sup> Just as importantly, each SSI will own and control its associated data so that if any third

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<sup>3</sup> Ensign, R.L., Jones, C. (2019, Mar. 02). *The Problem for Small-Town Banks: People Want High-Tech Services*. The Wall Street Journal.

<sup>4</sup> Dachis, A. (2012, Aug. 13). *Why Switching Banks Can Actually Cost You More Money Than It Can Save*. LifeHacker.

<sup>5</sup> In 1994, the giant banks (those with 100.2 billion or more in assets) equaled sixteen percent (16%) of the total market. In 2018, Citigroup, JP Morgan Chase, Wells Fargo, and Bank of America alone controlled thirty-six percent (36%) of the total market with giant banks controlling fifty-nine percent (59%) of the total market. See Institute for Local Self-Reliance. (2019, May 19). *Bank Market Share by Size of Institutions, 1994 to 2018*; see also McKinsey & Company. (2020, Dec. 09). *McKinsey's Global Banking Annual Review*. Retrieved July 14, 2021; see also The World Bank. (2018, October 02). *Financial Inclusion*. Retrieved July 14, 2021; see also Milanovic, N. (2020, Nov. 30). *Understanding The Limits Of Fintech In Financial Inclusion*. Forbes.

<sup>6</sup> For a brief description of self-sovereign identities, please see Wikipedia. *Self-sovereign identity*. Retrieved July 15, 2021.

<sup>7</sup> Wilser, J. (2020, Oct. 01). *Self-Sovereign Identity Explained*. CoinDesk.

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party desires to view the data, the SSI owner will have the ability to approve the request along with controlling the terms under which the third party may view the data.<sup>8</sup>

In financial services, this means any individual with an SSI will own and control the most valuable financial asset of all—all financial services data associated with that individual. In addition to owning the data, public blockchain technology enables that SSI to be instantly portable across an open banking ecosystem specifically designed to foster competition among financial institutions. For the first time in history, individuals will be in control of what information is shared with potential financial institutions, when, and under what circumstances. The implications for competition, better products and services, and increased choice are substantial.

If a lender needs to know a potential borrower's payment history on a car loan, that lender should not request that information from Equifax and pay Equifax for data that belongs to the potential borrower. That lender should request access to that data from the potential borrower directly and compensate that borrower to access that information. If an individual is interested in opening a new credit card, that potential customer should be able to selectively broadcast his or her credit data to pre-selected credit card companies—not receive a pre-qualified letter in the mail from random credit card companies that paid Transunion for credit data. These are simple examples couched in terms of financial products available today. Soon, banks will be lending to consumers that have crypto assets, receive passive income from staking in blockchain code contracts, earn interest income from stablecoins deposited in autonomous interest rate protocols, own non-fungible token artwork with lifetime revenue streams, or receive songwriter royalties

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<sup>8</sup> Financial institutions are required to collect and store certain data to meet regulatory requirements under regulations such as the Bank Secrecy Act. This technology architecture allows for compliance with these requirements and we will only engage with blockchain and SSI technology services providers that have designed their technology to accommodate and comply with all relevant financial services regulations.

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from the sale of tokenized copyrighted music. These digital assets will serve as collateral to a number of new credit products and the only way to meaningfully manage ownership and revenue rights to these assets is through SSIs.

This will lead to dramatic evolutions in internet architecture from e-commerce to social media. In financial services, SSIs will serve as individual-level central data hubs for all financial products and services ushering in a new era of open banking where individuals may freely port any identity to any regulated financial product or service provider all while aggregating those products and services into a single user hub controlled by the individual. This new technology infrastructure will transform the role of financial institutions from serving as the center of each financial transaction to instead functioning as a true financial service and compliance provider competing against other institutions for customers based on price and service alone. Identity is the central component to all financial services, both for IDIs and banking customers. As such, we encourage the FDIC to consider the important of digital identity in online banking and earnestly explore the coming banking paradigm shift that SSIs will bring.

**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 the scope of the activity.”**

Digital asset activities are being provided by a number of non-IDIs. But as will be explained, the customer demand for digital asset products and services is soaring and IDIs are slowing entering, or preparing to enter, the digital asset space. Recent research shows that sixty percent (60%) of cryptocurrency owners would use their banks to invest in cryptocurrencies.<sup>9</sup> The demand is clearly here for digital asset products and services offered through IDIs.

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<sup>9</sup> Shevlin, R. (2021, Apr. 19). *The Coming Bank-Bitcoin Boom: Americans Want Cryptocurrency From Their Banks*. Forbes.

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## Cryptocurrency Buying and Selling; Digital Asset Custody

Today, the foundational building blocks for IDIs to offer digital asset products and services in a safe, secure, and compliant manner are being developed and deployed mostly by non-IDI financial technology companies. Activities such as fiat on-ramps and off-ramps for converting fiat to Bitcoin or Ethereum and vice-versa are fairly common.<sup>10</sup> However, a small minority of IDIs are beginning to enter the space.

VAST Bank claimed to be the first nationally chartered financial institution to purchase cryptocurrency and provide digital asset custody services on behalf of its customers.<sup>11</sup> U.S. Bankcorp recently announced a digital asset custody product for managing crypto assets.<sup>12</sup> Additionally, First Boulevard (a challenger bank) has announced a pilot with Visa to enable customers to purchase, custody, and trade digital assets.<sup>13</sup> In fact, the demand for Bitcoin purchases through IDIs is so significant, 650 United States banks will soon offer bitcoin purchases to approximately 24 million customers.<sup>14</sup>

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<sup>10</sup> E-payments startup Wyre has partnered with Opera browser to enable crypto purchases directly from iOS or Android mobile phones with debit or credit cards. See Nelson, D. (2020, May 17). *Opera Browser Adds Apple Pay, Debit Card Cryptocurrency Purchase Options*. CoinDesk. BRD, a mobile wallet company, launched a feature with Wyre in 2019 that enable this functionality with over 1,700 banks. See Kuhn, D. (2019, June 13). *BRD Partners With Wyre to Build Bank Transfer Wallet Features*. CoinDesk.

<sup>11</sup> Vast Bank. (2021, Feb. 04). *Vast Bank Partners with Coinbase to Complete Successful Bitcoin Transaction*. [Press Release].

<sup>12</sup> Crosman, P. (2021, Apr. 27). *US Bank to offer custody service for digital assets*. American Banker.

<sup>13</sup> Shevlin, R. (2021, Apr. 19). *The Coming Bank-Bitcoin Boom: Americans Want Cryptocurrency From Their Banks*. Forbes. First Boulevard is a financial services company with banking services provided by the Central Bank of Kansas City, an IDI. See FirstBlvd. *Home*. Retrieved July 15, 2021.

<sup>14</sup> Enterprise payment NCR and digital asset-management firm NYDIG have partnered to provide community banks with the technology and custody infrastructure to offer services to those banks' customers. See del Castillo, M. (2021, June 30). *\$6 Billion NCR Opens Bitcoin Purchases To 650 Banks And Credit Unions*. Forbes.



While we have no independent method to verify what is discussed in the industry, it is our understanding that most major IDIs are exploring a partnership with digital asset custody providers or developing proprietary digital asset custody services for their customers. Such has been the case for major foreign banking institutions over the last few years.<sup>15</sup> We fully anticipate that given the progress of IDIs and international banking institutions entering the digital asset space, the industry will experience a wave of IDIs offering customers the ability to buy, sell, and custody digital assets over the next twenty-four (24) months.

### **Cryptocurrency-Backed Lending**

While we are unaware of any IDIs offering crypto-backed lending products, the trend in non-chartered financial services technology companies (“fintech” or “fintechs”) is clearly showing a substantial and growing demand for this product. As of May 2020, the cryptocurrency lending market exceeded \$10 billion in total loan originations.<sup>16</sup> When compared to the traditional online lending fintechs such as Lending Club and Prosper, cryptocurrency total loan originations has already equaled approximately twelve percent (12%) of online lending’s annual loan originations, a significant share of the non-IDI online lending market.<sup>17</sup> Fintechs continue to capture larger shares of the online unsecured lending market accounting for nearly fifty percent (50%) of all such loan originations in 2019.<sup>18</sup> Fintechs tend to offer a superior customer experience by leveraging

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<sup>15</sup> Standard Chartered, DBS Bank of Singapore, and BBVA have added cryptocurrency custody services for different cryptocurrency asset classes. See del Castillo, M. (2021, June 30). *\$6 Billion NCR Opens Bitcoin Purchases To 650 Banks And Credit Unions*. Forbes.

<sup>16</sup> Shimron, L. (2020, May 26). *Exploding Pas \$10 Billion, Interest Income And Lending Are Bitcoin’s First Killer Apps*. Forbes.

<sup>17</sup> *Id.*

<sup>18</sup> See Experian. (2019, Sep. 24). *Experian study finds fintechs more than doubled personal loan market-share in four years*. Retrieved July 15, 2021.

the newest in technology infrastructure. The benefits of this superior technology enable fintechs to quickly, and more cheaply, offer these types of loans to customers.

The next evolution of quick, efficient, and cost-effective lending is cryptocurrency-backed loans. If approved for offering by IDIs, customers who own digital assets will be able to use those assets as collateral for a loan from their bank in an application, approval, and funding process quickly and seamlessly. The IDI will have the extra assurance of a digital asset securing the loan with no associated priority or collection risk and the customer will, for the first time, have the ability to post collateral custodied by the bank for a collateralized loan. Assuming the smoothing out of volatility for certain cryptocurrencies that serve as loan collateral, IDIs will be able to offer digital asset products and services that encourage saving in cryptocurrencies, whose barrier to entry is minimal. Those cryptocurrencies can be used as collateral for personal loans offering a way for those who generally cannot afford to accumulate expensive collateral for home equity lines of credit or loans against 401k plans.

We also believe that risk will eventually be entirely managed through loan-to-value ratios measuring collateral risk instead of credit scoring-based underwriting that measures risk based upon personal applicant characteristics. This technological revolution in underwriting will remove the negative social scoring methods used today from underwriting making credit products widely available to underserved segments of the population. Crypto-backed lending will reduce borrowing costs dramatically while opening IDIs' customer-base to a more inclusive and fair lending environment.

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## Cryptocurrency Reward Credit Cards

We are unaware of any IDIs offering credit cards with cryptocurrency rewards. However, several large non-IDI financial service providers are offering this product through providers such as Visa and Mastercard, including SoFi, BlockFi, and Gemini.<sup>19</sup> While statistics are currently unavailable, since December 2020, the waitlist for BlockFi's rewards card has amassed nearly 400,000 people demonstrating that the demand for this product is high.<sup>20</sup> We believe that it is only a matter of time before IDIs will be offering similar products to its customers.

Competition will likely be a large driver of an IDI's decision to offer this product. Fintechs continually find partnerships that compete directly with core IDI offerings and this no different. IDIs will likely have to offer similar products to maintain existing customers and compete for new ones. However, as with crypto-backed lending, this product offers IDIs the potential to bring the underserved segment of the population into banking while encouraging positive financial habits, such as rewards-based credit cards. The customer could even be incentivized to place the rewards in custody with the bank and use the aggregated rewards to apply for a crypto-backed loan at a fair and reasonable interest rate. If this type of savings behavior were encouraged to the point of a sufficient cryptocurrency collateral balance, customers who traditionally rely on high-interest payday lending to meet emergency expenses could obtain those funds through IDI lending products while maintaining ownership of the collateral and paying a dramatically lower interest rate. Crypto reward programs could accelerate the realization of better financial health for a significant number of individuals.

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<sup>19</sup> See Palmer, K. (2021, June 08). *5 Credit Cards With Crypto Rewards*. NerdWallet.

<sup>20</sup> See iNewswire. (2021, July 06). *BlockFi Announces Launch of the BlockFi Rewards Credit Card to US Waitlist Clients*. Newswire.

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## Decentralized Finance Protocols

We are unaware of any IDIs offering services that connect to decentralized finance protocols. However, assuming all regulatory requirements around safety, soundness, and compliance can be achieved, we believe customers will want their bank to offer regulated decentralized finance services as part of a holistic financial services offering given the efficiency, diversification, and returns these protocols can provide.

The decentralized finance evolution demonstrates that cryptocurrency customers demand financial products and services that not only offer the ability to buy, sell, and custody cryptocurrency, but also enable holders to monetize digital assets. One such example is Compound—a decentralized finance interest rate protocol that offers a money-market type service for owners of highly liquid digital assets to lend to borrowers globally, twenty-four hours a day, and seven days a week.<sup>21</sup> Compound recently became the first decentralized finance protocol with over \$10 billion in total locked value.<sup>22</sup> With interest rates ranging from two-hundred and fifty (250) basis points to two and one half percent (2.5%), decentralized interest rate protocols are demonstrating that permissionless blockchain-based code contracts can greatly enhance efficiency and cost-savings resulting in interest rate returns for banking customers that traditional savings accounts and certificates of deposits cannot provide in this monetary policy environment. Again, assuming all regulatory requirements around safety, soundness, and compliance can be achieved, we believe decentralized finance protocols offer a new and exciting framework to offer banking customers additional ways in which to monetize ownership of their digital assets.

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<sup>21</sup> See Ivan on Tech. (2020, Dec. 07). *DeFi Deep Dive – What is DeFi Money Market and the DMG Token?*

<sup>22</sup> See Young, E. (2021, Apr. 10). *Compound Becomes First DeFi Project With Over \$10B TVL*. Yahoo Finance.

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**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?”**

Blockchain technology represents a shift in base-layer data infrastructure from siloed systems owned and controlled by private enterprise to permissionless or consortium-owned and controlled base-layer data infrastructure. Given this shift in infrastructure design, existing risks and compliance frameworks cannot adequately identify, measure, monitor, or control risks associated with digital asset use cases. IDIs that seek to leverage blockchain technology will likely need to upgrade risk and compliance management training, skills, strategies, and technology with respect to customer identification programs, transaction monitoring, and associated risk evaluation models.

However, public blockchain technology has superior characteristics that IDIs will leverage to enhance existing customer identification programs and transaction monitoring. As is well-known, public blockchain ledgers are indeed public and immutable meaning the digital wallet addresses and their associated transaction data is publicly available for review and analysis by any IDI. Having a complete and unaltered transaction history data is, in and of itself, a substantial upgrade to existing private ledgers that are typically inaccessible to counterparties and subject to alteration by the enterprise who controls the data. If used properly, this data history is an asset to every IDI’s compliance program in that the IDI may, in real time, analyze flow of funds occurring not only within the IDI itself, but outside the IDI when customers transaction outside the confines of the IDI’s offerings. Moreover, an IDI will have the ability to associate one wallet with other wallets not offered by the IDI when the data demonstrates that wallets are under common control. This type of visibility will enable IDIs to create risk scoring metrics and models for customers and

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non-customers alike allowing each IDI to reach a data-based conclusion on whether a particular individual or transaction poses any type of risk to the IDI. Real-time wholistic risk-scoring is a substantial upgrade to current compliance programs and a benefit that regulators and IDIs should recognize and embrace.

While the criminal use of cryptocurrency is well-known, substantial progress is being made on the global regulatory front with the Financial Action Task Force’s Travel Rule implementation beginning to take shape.<sup>23</sup> As this and other regulatory frameworks continue to close the compliance gaps in digital assets, we are seeing regulation become more effective, particularly through the proper regulation of fiat on-ramps and off-ramps. This role has traditionally been offered by IDIs but are largely being fulfilled by global cryptocurrency exchanges. From 2017 to 2019, “[t]he global average of direct criminal funds received by exchanges dropped 60% . . . most of which occurred in the last year with a 47% drop from 2018 to 2019.”<sup>24</sup> In 2019, “only 0.17% of funds received by exchanges . . . [came] directly from criminal sources.”<sup>25</sup> “As more crypto [anti-money laundering] regulations are implemented around the world (including AMLD5 in Europe), many criminals are finding it harder to offload their illicit funds directly to cryptocurrency-exchanges—the most common crypto-to-fiat offramp.”<sup>26</sup> This positive trend is one we expect to continue as regulatory frameworks are implemented and one we expect to

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<sup>23</sup> See Barragan, J. (2021, July 07). *Second 12-Month Review of the Revised FATF Standards on Virtual Assets and Virtual Asset Service Providers*. CipherTrace.

<sup>24</sup> CipherTrace. *Spring 2020 Cryptocurrency Crime and Anti-Money Laundering Report*. Retrieved July 15, 2021.

<sup>25</sup> *Id.*

<sup>26</sup> *Id.*

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accelerate if IDIs expand their foundational role of fiat on-ramps and off-ramps into the digital asset ecosystem.

We also believe that IDIs will need to develop enhanced risk and compliance management frameworks to leverage the benefit of having wallet and transaction data readily and publicly available. Identity, fraud, and transaction monitoring goals and objectives will not change, just the technology used to monitor banking activities. Such controls are being strengthened and hardened using blockchain intelligence tools designed to provide a specialized view of the emerging risks and criminal typologies unique to cryptocurrency. Given the digital nature of blockchain networks, automated software driven solutions can adequately handle real-time monitoring and risk-scoring effectively. Such is already being proven today with software providers such as Chainalysis, and Elliptic providing effective monitoring solutions to governments and IDIs alike.<sup>27</sup> Monitoring digital asset transactions in real-time is not only possible, but available to anyone today. The critical piece will be building out proper policies, procedures, and controls to adequately manage the risks posed by criminal activity.

**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?”**

The complexity in measuring, monitoring, and controlling certain digital asset use cases is not a technological issue; it is a virtual asset service provider (“VASP”) issue. Most risks can be managed with the appropriate tool set, however certain VASP’s are engaged in ever more complex product and service offerings with some also deliberately creating opaque corporate structures. While the risk these VASP’s pose to IDIs can be adequately managed through robust third-party vendor diligence and ongoing management, as digital assets continue their march toward a

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<sup>27</sup> See Coinpath. (2020, Aug. 18). *Best Blockchain Analysis Tool and How They Work?*

digitally powered global marketplace, know-your-customer and transaction monitoring becomes more complex. Digital asset transactions are global in nature, settlement occurs in minutes, and new products and services are emerging daily. IDIs should continually invest in research, training, and technology to properly manage and reduce the risks that digital asset services present. Every new technological revolution brought with it new and complex risks to the banking system including telephones, internet, and mobile banking. IDIs met the unique risks posed by each and we believe risk management for digital assets will follow a similar successful path.

Lastly, certain unique controls or processes could be used to implement and address the risks generally referenced above. As the Financial Crimes Enforcement Network (“FinCEN”) prepares to create a new beneficial ownership registry, FinCEN should ensure usability and ease of access for reporting companies, law enforcement, and financial institutions in the digital asset space. We believe that reporting should build on existing requirements in FinCEN’s customer due diligence rule while taking steps to verify the information submitted by reporting companies, that terms such as “beneficial ownership” should have clear and simple definitions, and that FinCEN takes appropriate steps to notify reporting companies about these requirements.

**Question 10. “Are there any unique aspects of digital asset activities that the FDIC should take into account from a supervisory perspective?”**

Digital assets have characteristics that are unique to the asset class such as quick settlement times, global technology rails without the need for intermediaries, the ability for individuals to transact at any time on any day, pseudonymous architecture, and the ability to send cryptocurrency to any wallet without needing permission of an intermediary or the recipient. These characteristics are both beneficial and challenging from a regulatory perspective because the legacy financial



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system is designed to slow transactions so that trusted third parties have time to serve critical consumer protection goals.

We believe one unique and critical aspect of digital asset activities is the reliance on code contracts to automatically execute financial transactions instead of trusted third-party intermediaries. When introduced to the concept for the first time, it is challenging to fully grasp and trust that billions of dollars of digital asset value is being “stored” in code contracts today that are managed exclusively by immutable software code, such as borrowing and lending cryptocurrency. And this is just the version one of code contracts.

As digital asset financial building blocks continue to be developed and mature, more and more complex financial products will be offered through code contracts. Individuals, rather than relying upon Venmo to administer payments to friends, will rely on IDIs leveraging code contracts for faster and cheaper payments. Gig workers, rather than relying on Uber to administer their driving business, will rely on code contracts to service customers directly. IDIs will be the financial services arm of this peer-to-peer platform. Mortgage lenders, rather than relying on cumbersome title companies, will instead rely on code contracts that will provide title assurances in minutes rather than weeks. IDIs will be the financial services arm of these transactions as well. We encourage the FDIC to continue seeking information and education around code contracts and how they will continue the steady march toward disintermediation in financial services.

**Question 11. “Are there any areas in which the FDIC should clarify or expand existing supervisory guidance to address digital asset activities?”**

One particular area in need of clarity is whether IDIs may hold Bitcoin and Ether on their balance sheet. While we acknowledge that cryptocurrency price volatility is a risk that must be understood and properly managed, there are other unintended consequences that we encourage the

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FDIC to consider. Sourcing liquidity for buying and selling Bitcoin and Ether from third parties introduces a number of challenges to consider.

First, the Bitcoin and Ether must be moved from the liquidity provider to the IDI (in the case of a purchase) and from the IDI to the liquidity provider (in the case of a sale). Consumers will have account-level digital wallets with IDIs creating another “hop” for the Bitcoin and Ether to move from the IDIs omnibus wallet to the account-level wallet and vice-versa. This introduces additional transfer risks that could be minimized if IDIs were allowed to hold certain cryptocurrencies on balance sheet and fund customer purchases and sales directly.

Second, any transaction from a digital wallet to another digital wallet incurs a transaction fee. When multiple digital wallet transactions are necessary for a single buy or sell, multiple transaction fees will be incurred making the transaction more expensive for the consumer. The fees add up over time and could be minimized if IDIs were allowed to hold certain cryptocurrencies on balance sheet.

Third, assuming the risks could be properly managed, and the model is approved by the FDIC, holding certain cryptocurrencies on balance sheet will enable IDIs to increase revenue by monetizing those assets similar to how IDIs monetize deposits. Cryptocurrencies are, and will continue, to take credit and interest-bearing market share away from IDIs and IDIs should position themselves to take advantage of this evolution in financial services.

**Question 12. “In what ways, if any, does custody of digital assets differ from the custody of traditional assets?”**

Digital assets are blockchain-native, meaning the assets technically exist only on a blockchain. Moreover, the digital assets are secured through public/private key encryption technology. In short, digital assets exist entirely in software code and are secured with

sophisticated encryption algorithms. This presents a dramatic departure from traditional custody of financial assets.

Digital asset custody is focused on the management of the unique private key associated with the digital wallet that “holds” the digital asset. In technical terms, the digital asset is not moved in and out of digital wallets. Rather, the digital asset is registered to a particular wallet public key address on the blockchain ledger. Whoever has access to this private key has access and control of the digital wallet, and by extension, the digital assets registered to that wallet. If an IDI were to offer digital asset custody services, the IDI must be deeply knowledgeable in blockchain technology, private key management, hot wallets, warm wallets, and cold storage, along with the necessary cyber and physical infrastructure security needed to custody valuable digital assets. This is a dramatic departure from today’s traditional asset custody that relies upon a complex web of custodians, intermediaries, and siloed ledgers to manage traditional assets. If properly designed, developed, and managed, we believe that digital asset custody is superior to traditional custody in efficiency, security, and transparency while enabling direct ownership of digital assets by the consumer.

### **CONCLUSION**

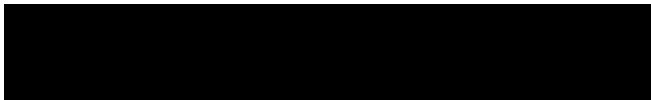
Since the advent of electronic financial services, financial institutions have owned the technology rails and the consumer data that moves on those rails. Public blockchain technology turns financial services rails into a public good and returns ownership and control of personal financial data where it belongs—to the individual. Individual financial data is an asset that should be owned by the individual.

The technology now exists to shift the paradigm from data extraction and exploitation by financial services providers to data ownership and monetization by individuals. Individual SSIs will become the most important financial asset in the ecosystem. SSIs will fundamentally

transform the individual from being a customer of one or two financial service providers to being a customer of an entire financial industry with access to new and competitive products and services. The key to this paradigm shifting framework is SSI and a policy of returning ownership and control over all financial data to the individual.

We encourage the FDIC to continue its information gathering relating to digital assets under the framework set out in the RFI. We also encourage the FDIC to think more broadly and pursue information gathering around the true revolution in blockchain—individual ownership and control of personal financial data. We also believe that public blockchain’s transparent and publicly accessible ledger serves as the foundation for a comprehensive and effective compliance program that all IDIs will have the ability to create and implement. We appreciate the FDIC’s willingness to engage in stakeholder discussion around digital assets and considering our proposal to include SSIs and associated financial data in the digital asset discussion.

Sincerely,

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Lee Weiss, Director and Secretary  
JBNV Holding Corp