

# FDIC Records—Additional Correspondence Related to Crypto-Related Activities

March 14, 2025

This release includes two records consisting of additional FDIC correspondence and other records involving the crypto-related activities of regulated institutions.





February 7, 2023

TO: The Files  
**b4,b8**

FROM: **b8**  
Case Manager

SUBJECT: **b4,b8**

In November 2021, **b4,b8** notified the FDIC of a changes in their involvement with **b4,b8** (see memo to file in RADD). The bank had a long standing relationship with **b4,b8** which offered a **b4,b8** currency that was used only with **b4,b8** **b4,b8** to promote **b4,b8** Management explained they planned to participate in a digital form of the currency that was being introduced by **b4,b8** using block chain technology.

Subsequent to this call, FIL-16-2022 “Notification of Engaging in Crypto-Related Activities”, was issued, and **b4,b8** notified the FDIC of their involvement with **b4,b8**. The Washington Office (WO) asked the **b8** **b8** personnel to review **b4,b8** involvement with **b4,b8**. However, since a Safety and Soundness examination of **b4,b8** was in process, **b8** and WO staff determined that the examiners could gather information during the ongoing examination of **b8** first before a formal request letter was sent. A list of questions was developed by **b8** and WO staff (see Exhibit A). The questions were provided to **b4,b8** and answers were received (see Exhibit B). Since the answers were not in the same format as the questions, Case Manager **b8** developed a document with the questions and answers (see Exhibit C).

Based upon the answers, FDIC personnel identified concerns with the bank’s statement that **b4,b8** was not a money service business (MSB). A list of talking points was developed by the **b8** personnel and edited and approved by the WO (see Exhibits D and E) to convey the MSB related concerns to the bank. Additionally, concerns were identified related to pass through insurance. However, the FDIC did not have an opportunity to further vet the concerns and develop a list of questions since the bank notified the FDIC that **b4,b8** was ceasing operation of the digital **b4,b8**

Case Manager **b8** drafted a letter to send to the bank acknowledging the cessation of digital activity with **b4,b8** and requesting notification of any future digital related activity in accordance with FIL-16-2022. The letter was edited and approved by WO personnel and sent to **b4,b8** on January 17, 2023. See RADD for the letter and documentation of approval to send by the WO.



## EXHIBIT A

b4,b8	
b4,b8	Review Questions

### A. Corporate Governance/Organization

1. Describe the due diligence and/or risk assessments performed by b4,b8 related to Digital b4,b8 including for any critical third parties (i.e. b4,b8). Please provide all copies.
2. What risks were identified related to the b4,b8 blockchain?
3. What are the protocols if the b4,b8 blockchain experiences backlogs, higher than normal transaction fees, changes to the network, failure, or a fork in the protocol?
4. What was b4,b8's role in selecting critical vendors and selecting the b4,b8 network? Does b4,b8 have any role in the governance and the operations (e.g., node) of the b4,b8 network?
  - o If selections and due diligence was not performed by the bank, explain which entities are responsible for those functions.
5. Can the value, availability or usability of a b4,b8 change due to the nature of the open source projects,
6. Who completed the Regulatory Overview that was provided?
7. Provide any related policies and procedures.

### B. Pass Through Insurance

1. Explain b4,b8 understanding of how FDIC deposit insurance works.
2. Describe any analysis that b4,b8 performed to determine whether the Digital b4,b8 and any related third party's account agreements are accurate as it relates to deposit insurance.
3. Provide copies of any documents reflecting where pass-through insurance is disclosed/advertised.
4. Will there be any expectations of accounts exceeding insurance limits (this could pertain to a customer at the bank that also has b4,b8), and if so, how will be managed (i.e. sweep accounts)?

### C. b4,b8

1. For the b4,b8 was b4,b8 considered an issuer since the b4,b8 would provide customers with b4,b8
2. Provide the b4,b8 agreement with b4,b8
3. The history of b4,b8 indicate an offer of \$0.95 to obtain \$1 in b4,b8. When the merchant redeemed the b4,b8, did they only get \$0.95?
4. Will there be any similar b4,b8 with the Digital currency, or will it be 1:1?

#### D. Functionality

1. Explain how [b4,b8] views their role in the Digital [b4,b8]? (ie. are they just a holder of reserves)
2. Who is the issuer of the [b4,b8] tokens (ie. bank involvement or only through [b4,b8] through the app)?
3. Describe the roles of all parties of Digital [b4,b8] including, but not limited to, [b4,b8] and [b4,b8]
4. Has [b4,b8] engaged an independent Smart Contract auditor? If so, provide audit results.
5. The system use multiple smart contracts for processing. Please provide any due diligence done on the smart contracts. If there was an independent audit of the smart contracts, please provide the audit results.
6. Is Digital [b4,b8] still in [b4,b8] testing or live/fully functioning for any interested customer?
  - o If fully functioning, provide the final/executed Digital [b4,b8] Agreement
7. Will [b4,b8] be the only banks involved in the Digital [b4,b8]

#### E. Funding the [b4,b8] Wallett

1. What is the process of setting up a “[b4,b8]” ([b4,b8]) through the [b4,b8] App?
  - o What parties are involved? (consumer/merchant/bank/third party/[b4,b8] [b4,b8])
2. Describe the transfer of funds process through a sample transaction (i.e. beginning with funding from the [b4,b8] through minting and redemption). Specifically:
  - o Where does the money go once removed from the [b4,b8]
  - o Can the [b4,b8] Wallet be used to store USD without the conversion to Digital [b4,b8] or does the customer upload \$ to the Wallet and immediately buy the token? If it can be stored, how long can it be stored?
  - o When the funds are transferred from the [b4,b8] and converted to a token is the agent issuing a separate security or is it the immediate purchase of a token which is a prepaid purchase.
  - o Upon transfer from the [b4,b8] how and when do the funds go to [b4,b8] [b4,b8] pooled account?
  - o How is determined what funds will be at which bank?
  - o Who is the ODFI initiating transfers?
  - o How does the pooling of deposits work?
  - o What is the process to redeem/cash out Digital [b4,b8] to USD for both [b4,b8] users and [b4,b8] What are the redemption limits and transaction fees? And how is the process recorded on a general ledger?
3. Can Digital [b4,b8] holders redeem [b4,b8] at the bank or are they redeemed solely via ACH credit to the [b4,b8]
4. What does pre-funding your wallet mean and how is that process performed?
5. What are the counterparty risks of the exchange wallet?
6. Explain how the limitations in the Wallet were derived.

7. What controls are in place to ensure a customer can only have one wallet?

**F. b4,b8 Role and Role of Custodian/Agent**

1. What type of deposit account(s) were set up at b4,b8 and what is the ownership of the account(s)? Provide the titling of the account(s).
2. Who is the custodian/agent of the holding account?
3. Which party maintains the records that evidence ownership of the deposits?
  - o How does b4,b8 know the names and identities of persons on whose behalf each custodian/agent is acting?
4. What is the current outstanding balance of the holding account(s) at b4,b8? And what is expected volume?
5. Does b4,b8 know the total transaction volume for b4,b8 through 7/30/22? (number of b4,b8 issues and number of b4,b8 redeemed). If so, provide details.
6. Provide account statements for June and July 2022.
7. Which entity is the custodian/agent of the token?
  - o What type of custody? (i.e. self-custody through the app, Smart contract wallet, hot storage, cold storage, etc.)
  - o Does the custodian hold the private key on behalf of the asset holder?
8. Provide copies of any agreements and disclosures involving the bank (with b4,b8 Digital b4,b8 users, and any other parties).
9. Are any disclosures made to customers? If so, how do customers receive them? Please provide a copy.
10. Can the customer dismiss the agent/custodian and go directly to the Bank?

**G. b4,b8 Oversight**

1. Explain the Compliance Portal (what it does and how it will be used) and what phase the Compliance Portal testing is in.
2. Provide a copy of the b4,b8 Agreement referenced in the draft Digital b4,b8 Bank Agreement as being attached.
3. Will Digital b4,b8 be included in the internal audit program?

**H. General Questions (Safety and Soundness, Due Diligence, Oversight)**

1. Describe what happens if b4,b8 or any other party involved in this product cease to exist.
2. Provide the marketing materials for the b4,b8 program.

**I. BSA**

1. Explain why b4,b8 believes Digital b4,b8 are considered a b4,b8
2. Explain what BSA exemptions b4,b8 feels are applicable to b4,b8 and reference material was used for the determination.
3. What is required to open up a b4,b8 Wallet and obtain a b4,b8 account? Are there any KYC/AML/CIP requirements and which entity performs the KYC and verification process?
4. b4,b8 notes in their terms and conditions that they are not a money transmitter and do not perform money transmission or money transfer or payment of services. What

- analysis did [b4,b8] perform of the services provided by [b4,b8] to ensure they are not a money service business (MSB)?
5. Based upon FinCEN's 2011 rule on prepaid access cards, has [b4,b8] determined if [b4,b8] is considered a MSB? What is the basis for the determination?
  6. Who is responsible for monitoring of Digital [b4,b8] dollar limits and usage?
  7. Can Digital [b4,b8] be transferred to other individuals? For example, if one person purchased the [b4,b8] but then gave the [b4,b8] to someone else to use in the [b4,b8] [b4,b8]?
  8. Who and how are ACH transactions and block chain transactions monitored?
  9. Explain how process of monitoring for suspicious activity. Does [b4,b8] flow into the [b4,b8] system?
  10. Do automated monitoring systems have the ability to establish parameters for monitoring these transactions?
  11. How is OFAC applied and who is responsible?
  12. Does the customer or third party vendor have any suspicious activity monitoring processes that it uses on their end with the bank?
  13. Explain the SAR filing responsibility if [b4,b8] is made aware of suspicious activity by a third party, if applicable?
  14. Explain how reputational risk is minimized if [b4,b8] associated with [b4,b8] and something goes wrong?

#### **J. Information Technology and Vendor Due Diligence**

1. Provide clarity on whether application programming interfaces (APIs) are being used. The "[b4,b8]" highlights that there is no need for integration or the use of APIs, however the "[b4,b8]" indicates the use of APIs with banking partners.
2. How does [b4,b8] plan to risk rate [b4,b8] for the new digital program?



Response to FDIC Questions**I. Background**

**b4,b8**, since **b4,b8** has opened checking accounts held by a **b4,b8** organization called **b4,b8** whose mission is to keep money circulating in the **b4,b8** **b4,b8** currency. **b4,b8** is the name of the **b4,b8** currency program that **b4,b8** started to promote patronage of **b4,b8** businesses in **b4,b8** and to keep deposits with **b4,b8** banks such as ours, in lieu of using nationally issued credit cards. **b4,b8** has become a well-known example of a successful **b4,b8** currency project in the world, particularly in the United States.

**b4,b8** are issued 1:1 against U.S. dollars and used only within a **b4,b8** network of geographically bound **b4,b8** businesses. The initial rendition of **b4,b8** has been in the form of **b4,b8** that tellers at participating banks provide to customers who exchange an equivalent amount of U.S. dollars in cash (i.e., Federal Reserve notes). Those U.S. dollars are deposited into a checking account held by **b4,b8** on behalf of the **b4,b8** program at **b4,b8** as well as a **b4,b8** bank, **b4,b8**. With the advent of COVID accelerating the decline in the use of cash while increasing the use of credit cards and other forms of electronic payments, **b4,b8** saw a need to provide a digital complement to its **b4,b8** notes, first issued in **b4,b8**.

Digital **b4,b8** preserve the same fundamental structure as the **b4,b8** program. Instead of a **b4,b8** exchange of U.S. dollars for **b4,b8** notes, users can download the **b4,b8** app, link their bank account as a funding source to load their **b4,b8** wallets and receive **b4,b8** tokens upon settlement of an ACH transaction that moved funds from the user's bank account to the holding account at **b4,b8**. Subsequent transactions of **b4,b8** with **b4,b8** merchants are settled over the **b4,b8** blockchain network.

The **b4,b8** tokens are bespoke **b4,b8** that reflect the program design and are not wrappers around existing stablecoins in the market such as USD Coin (USDC). A **b4,b8** token can only be minted upon receipt of equivalent funds in the holding account, and can only be retired upon a merchant requesting a cash out, whereby an ACH transfer is sent from the holding account to the merchant's linked bank account. **b4,b8** tokens can only be spent in a **b4,b8** **b4,b8** token issuances and redemptions can be reconciled against the ACH transfers to and from the holding account; consequently, in the unlikely event of a catastrophic scenario, **b4,b8** tokens can be paused and correct balances subsequently redeployed. In the event of a wind down of the program itself, there would be account records showing **b4,b8** token balances of each user, which is equivalent to the amount of US dollars that the user could claim in a refund.

The bank's role with digital **b4,b8** is essentially the same as its role with **b4,b8** **b4,b8** which is simply to establish a checking account with an FDIC-insured bank to hold the underlying dollar deposits on behalf of the **b4,b8** holders. We opened a new checking account for **b4,b8** to hold dollar reserves just for digital **b4,b8**. The checking accounts for both **b4,b8** and digital **b4,b8** exclusively hold deposits on behalf of the notes/token holders and are not operational accounts of **b4,b8**.

Digital **b4,b8** was recently introduced to the **b4,b8** area in **b4,b8** mode on **b4,b8** **b4,b8** and previous to that in **b4,b8** we disclosed to our FDIC examiners our intent to participate in the digital **b4,b8** program.

## II. **b4,b8** funds flow and parties involved

Regarding the roles of all parties involved in Digital **b4,b8** (question 5), **b4,b8** is the legal entity that established the checking accounts to hold the underlying **b4,b8** dollar deposits and manages the day-to-day operations of the program. Dollar deposits backing each **b4,b8** are held in checking accounts at **b4,b8** in the name of **b4,b8** for the benefit of the **b4,b8** holders. The role of **b4,b8** is limited to maintaining the checking account established by its business client, **b4,b8** for the purpose of its **b4,b8** program. **b4,b8** is a technology service provider that works with **b4,b8** in designing, implementing and operating the **b4,b8** program. **b4,b8** is a payments platform that provides ACH services for funding **b4,b8** wallets and redemptions, as well as **b4,b8** through its service provider, **b4,b8**. (See more below) **b4,b8** is a public blockchain network upon which **b4,b8** transactions are settled, and it functions as a ledger for all on-chain **b4,b8** transactions. (See more below).

Below is a diagram of the flow of a wallet loading transaction with the relevant parties involved:

**b4,b8**

In order for a user to link a bank account and to initiate ACH transactions, a user in the **b4,b8** app is required to affirmatively consent to the ACH processor **b4,b8** user terms of service<sup>1</sup> and privacy policy.<sup>2</sup> This provides permission for **b4,b8** and its related organizations, such as **b4,b8** ACH ODFI, **b4,b8** to initiate ACH transactions.

**b4,b8** provides its own white-label bank account linking service through **b4,b8** as a default option, but **b4,b8** is also compatible with other popular bank account linking services such as Plaid (owned by Visa), Finicity (owned by Mastercard) or MX. None of **b4,b8** **b4,b8** directly interact with the bank account linking service. Per standard industry security practices for **b4,b8** services, the user connects to her **b4,b8** through encrypted data to authenticate bank account information that is not stored on the servers of any of the parties involved in **b4,b8**

Once a bank account is linked, the user may then choose to load her **b4,b8** wallet. The only way to fund a **b4,b8** wallet is by transferring an equivalent amount of U.S. dollars from the bank account the user has linked as a funding source. For example, if Alice wished to load 50 **b4,b8** to her wallet, she would first link her personal bank account, e.g., Chase, then select loading 50 **b4,b8**. Upon confirmation, an ACH transaction is sent via **b4,b8** to its ODFI to initiate an ACH debit for \$50 from Alice's account to the ODFI. The \$50 ACH debit would sit with **b4,b8** ODFI for a few days, typically 3 bank days, to ensure there are no non-sufficient fund (NSF) returns. Upon that satisfaction, the ODFI would initiate an ACH credit transaction of \$50 to the **b4,b8** account at **b4,b8**. Upon successful completion of the ACH transaction to **b4,b8** sends a confirmation to the **b4,b8** software program through its API, upon which the **b4,b8** smart contract would mint (i.e., create) 50 **b4,b8** tokens to Alice's wallet.

The real counterparty risk is that the user who is loading the **b4,b8** wallet has a NSF return, which is why the **b4,b8** ODFI will hold funds for typically 3 bank days before processing the ACH credit to the **b4,b8** program account at **b4,b8**, at which point the **b4,b8** software program would create the corresponding tokens. In the rare event that there is a subsequent reversal of the ACH transaction after **b4,b8** tokens have been minted,

**b4,b8** makes clear in the user terms and conditions, mirroring language that the user has agreed to also in the **b4,b8** terms and conditions ( **b4,b8**

**b4,b8** **b4,b8**

**b4,b8**

**b4,b8**

payment account. Users must agree to **b4,b8** user terms and conditions upon signing

**b4,b8**

up for an account, and a copy is always available at the **b4,b8** website. The user terms and conditions also contain risk disclosures.

The **b4,b8** wallet cannot hold any USD itself, only **b4,b8** tokens. The **b4,b8** tokens can only be created upon a successful ACH transaction of an equivalent dollar amount from the user's linked bank account, i.e., it is a prepaid transaction. Faster issuance of **b4,b8** tokens is dependent on using faster underlying payment rails, e.g., paying extra for same day ACH or other instant payment rails, which are effectively all working capital solutions offered by an ODFI to bear the risk of NSF's. Irrespective of these underlying mechanisms, the core principle is that **b4,b8** tokens **b4,b8** **b4,b8** Once in the user's wallet, there is no expiration date for **b4,b8** tokens.

Only business profiles can redeem **b4,b8** tokens back to U.S. dollars without limitation, also consistent with **b4,b8** ODFI rules. Businesses are accepting **b4,b8** for bona fide goods and services. On the other hand, users who are not vendors can only redeem for U.S. dollars if their balance is equivalent to **b4,b8** **b4,b8** **b4,b8** **b4,b8** This rule is consistent with many gift card programs (including multi-vendor programs), closed loop prepaid exemptions (see below), and state gift card *de minimis* rules.

To facilitate a redemption, the merchant would initiate a cash out request in the app, indicating the amount of the withdrawal. Merchants may link a separate bank account to their business profile (if they also maintain a personal profile). The **b4,b8** program charges a 1.5% fee to withdraw in order to cover backend ACH costs, with a minimum fee of \$0.50. The fees are displayed in the **b4,b8** app. As an example, if Alice is the proprietor of a sheep farm where she sells lamb chops at the farmers market, and she wishes to redeem **b4,b8** 100, then the transaction fee would be \$1.50, netting her a withdrawal of \$98.50.

Upon Alice confirming her redemption of **b4,b8** 100, the fee of **b4,b8** 1.50 is sent to a wallet owned by the **b4,b8** program to hold the transaction fees in the form of **b4,b8** These may be later redeemed to U.S. dollars to pay for the **b4,b8** ACH fees. The other **b4,b8** 98.50 is immediately burned (or retired) from circulation on the **b4,b8** blockchain and removed from the user's wallet. At the same time, an ACH transaction request is sent to **b4,b8** to debit \$98.50 from the **b4,b8** checking account at **b4,b8** which is held by the ODFI for a number of days to account for any NSF returns, and then sent as an ACH credit to Alice's linked business bank account. In the redemption process, the tokens must be immediately retired from circulation in order to prevent customers from spending **b4,b8** whose underlying dollar



values are in the process of withdrawal from the **b4,b8** checking account. This keeps **b4,b8** backed 1:1 against the underlying dollar deposits.

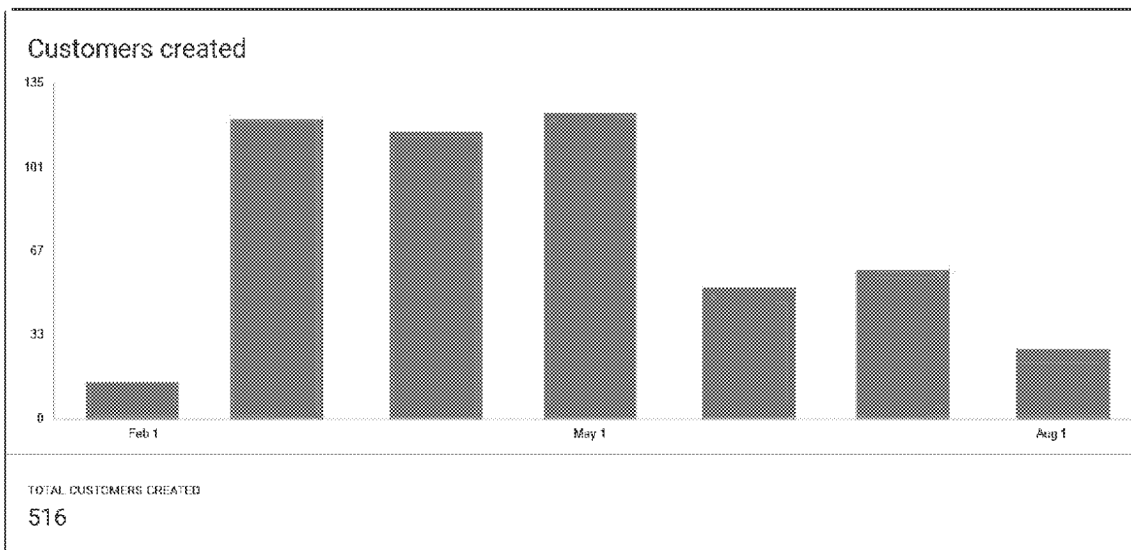
The **b4,b8** software program will try to split deposits and redemptions as evenly as possible between **b4,b8** and **b4,b8**. The general rule is the **b4,b8** software program will direct **b4,b8** to send user deposits to the bank with the lower balance and to withdraw user redemptions from the bank with the higher balance. For example, deposits will go to Bank A until Bank A has a higher balance than Bank B and redemptions will be drawn from Bank A until Bank B has the higher balance. Over time, this should average out that both banks hold roughly the same balance.

**b4,b8** through the **b4,b8** team has created a prototype of the compliance portal, which organizes transaction data in a more human-readable way by: a) reconciling dollar deposits with on-chain minting of corresponding **b4,b8** tokens, b) reconciling dollar withdrawals with on-chain burning of corresponding **b4,b8** tokens, c) organizing **b4,b8** transactions and on-chain transactions according to user. The team is currently commencing the coding and testing phase of the compliance portal.

### III. **b4,b8** transaction data

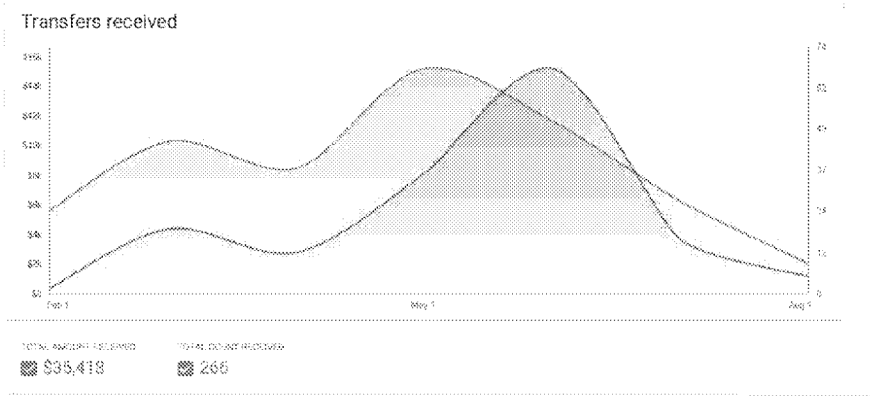
The transactions for **b4,b8** are as follows:  
Period: 02/10/2022 to 08/10/2022

Total number of Customer created accounts : 516



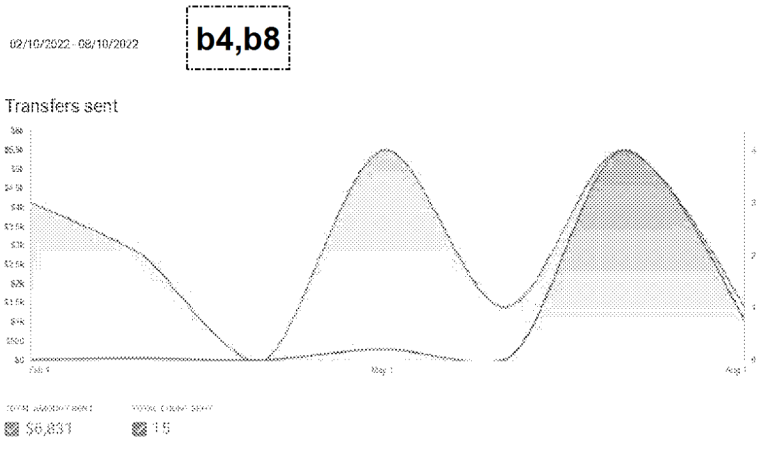
Total **b4,b8** minted: \$95,418 (35,418 from user deposits through **b4,b8** ACH + 60,000 treasury to fund user **b4,b8** for account sign-ups)  
**b4,b8** funded for **b4,b8** (can be used for **b4,b8** etc.):  
 Amount Received: \$50,000 + \$10,000 (**b4,b8**)  
**b4,b8** minted: \$60,000

Below is a graph of user Deposits through **b4,b8** ACH and converted to **b4,b8** \$35,418



Retired

**b4,b8** redeemed/retired from user withdrawals: \$6,831



Average volume of transactions:  
 1,696 total on-chain transactions YTD  
 Average transactions per month = 212

#### IV. FinCEN Prepaid Closed Loop Rule of 2011

**b4,b8** **b4,b8** believe that the **b4,b8** program fits the requirements of the FinCEN Prepaid Closed Loop Rule of 2011,<sup>3</sup> which is an exemption from the Bank Secrecy Act (BSA) and, therefore, registration as a money services business (MSB). Operators of prepaid programs are exempt from the definition of a money transmitter pursuant to 31 CFR § 1010.100(ff)(5)(i)(E).<sup>4</sup> The **b4,b8** program believes that the categorization as a **b4,b8** is not dependent on the access mechanism (e.g. digital wallet), but turns on **b4,b8** core purpose and economic substance **b4,b8**. By its very definition and purpose as a **b4,b8** currency, **b4,b8** is not meant to be used **b4,b8** with heavy representation of **b4,b8**. There are currently about **b4,b8** such **b4,b8** businesses registered to accept **b4,b8**. The **b4,b8** team is based **b4,b8** and works closely with **b4,b8** businesses to onboard them and train them to accept digital **b4,b8**.

According to FinCEN, “the term ‘defined merchant’ in the definition of closed loop prepaid access is not limited to a single merchant and its affiliates and may include additional unaffiliated partner merchants joined for the limited purpose of providing a closed loop prepaid access program.” See Question 3: Defined Merchant in the context of closed loop prepaid access in FinCEN FAQs.<sup>5</sup> Accordingly, **b4,b8** merchants, which are **b4,b8** businesses, need not be legally affiliated with each other in order for **b4,b8** as a **b4,b8** currency and payment rails, to qualify as closed loop.

Furthermore, FinCEN notes that 31 CFR 1010.100(kkk) defines closed loop prepaid access as “[p]repaid access to funds or the value of funds that can be used only for goods or services in transactions involving a defined merchant or location (or set of locations), such as a specific retailer or retail chain, a college campus, or a subway system.” (Emphasis added by FinCEN). *Id.* “As long as the universe of merchants is identifiable and articulated to the purchasing public, and the partner merchants are joined for the limited purpose of providing a closed loop prepaid access program, such an arrangement falls within the term ‘defined merchant.’” *Id.* Participating merchants are readily identifiable through the **b4,b8** app under **b4,b8**.

As described above, **b4,b8** are 1:1 backed by federal dollars held by **b4,b8** banks, **b4,b8**. Each **b4,b8** is a digital token representing one pre-funded US dollar. **b4,b8** cannot be created until there is confirmation from the ACH processor that the corresponding amount of U.S. dollars has been deposited to the **b4,b8** program checking account at **b4,b8**. Conversely, when a participating

<sup>3</sup> <https://www.fincen.gov/sites/default/files/shared/20110726b.pdf>

<sup>4</sup> <https://www.law.cornell.edu/cfr/text/31/1010.100>

<sup>5</sup> <https://www.fincen.gov/resources/statutes-regulations/guidance/frequently-asked-questions-regarding-prepaid-access>

**b4,b8** merchant wishes to redeem **b4,b8** back to USD, the **b4,b8** will be retired immediately, and a transfer will be initiated to move a corresponding number of federal dollars from one of two **b4,b8** reserve banks to the merchant's business bank account. Accordingly,

**b4,b8**

One key condition for the applicability of the prepaid closed-loop exemption to apply is that load amounts are limited to \$2,000 per day per device. "[A]s long as the program adhered to the \$2,000 maximum value established by FinCEN's prepaid access regulation for exclusion, the standard of a 'defined merchant' has been met." *Id.* The **b4,b8** software program enforces this limitation in the **b4,b8** app under **b4,b8**

FinCEN also removed additional proposed restrictions for the closed loop rule. Per the federal register explaining the final FinCEN prepaid rule based on public comments, the only restriction for closed loop prepaid is the \$2,000 daily limit. The other restrictions (international use, peer to peer transfer, non-depository reloads) were removed based on public feedback and only apply to open loop:

"As discussed above, the exemption for closed loop prepaid access has been changed in response to comments. The exemption now applies to closed loop prepaid access of less than \$2,000 maximum value. Unlike the NPRM, it exempts such closed loop prepaid access even if it allows international use, transfers within the prepaid program, or loading from nondepository sources. We believe these changes more accurately reflect the risks associated with closed loop prepaid access."<sup>6</sup>

Accordingly, peer-to-peer transfers are allowed within the **b4,b8** app, but only registered merchants are allowed to redeem **b4,b8** for U.S. dollars (non-merchants are subject to the *de minimis* rule), which is also an additional safeguard in the system. Furthermore, the FinCEN prepaid closed loop rule was written in the context of cash deposits, whereas with the digital **b4,b8** program, all funding sources are depository institutions, which provides an additional layer of protection.

In addition to the \$2,000 daily loading limitation under the FinCEN prepaid closed loop rule, **b4,b8** follows **b4,b8** ODFI rule limiting deposits from non-KYC accounts to \$5,000 per week. This rule is enforced by **b4,b8** ODFI.

**b4,b8** does collect some user identifying information as part of the account opening process (see below under the FDIC pass-through insurance recordkeeping discussion).

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<sup>6</sup> <https://www.govinfo.gov/content/pkg/FR-2011-07-29/pdf/2011-19116.pdf>

Finally, **b4,b8** does not need to register as a money services business with the

**b4,b8**

**b4,b8**

**b4,b8**

#### V. KYC, AML and OFAC

**b4,b8**

is responsible for KYC, AML and OFAC screening of **b4,b8** as it would for any other client of the bank. for **b4,b8**

**b4,b8**

ODFI, **b4,b8** is similarly responsible for KYC, AML and OFAC screening for its customers, including **b4,b8**

#### VI. FDIC Insurance and marketing

No marketing has been done to date apart from

**b4,b8**

has placed in **b4,b8**

**b4,b8**

(See copy attached).

The **b4,b8**

team has carefully drafted **b4,b8** the user terms and conditions under which **b4,b8**

**b4,b8**

endeavors to ensure that the underlying dollar deposits, but not the **b4,b8** tokens themselves, are protected by FDIC insurance in the event **b4,b8** the underlying banks were to become insolvent.

Below is the relevant language in the user terms and conditions:

**b4,b8**

**b4,b8**



**b4,b8**

**b4,b8** refers to the published opinion letter from the FDIC General Counsel<sup>9</sup> office which broadly defines what constitutes a "deposit" for purposes of FDIC insurance, including pass through insurance and deposits as related to stored value and non-traditional access mechanisms (such as electronic access mechanisms). Ultimately, a **b4,b8** token is a user claim against a corresponding dollar deposited with **b4,b8**. As noted in the user terms and conditions, "**b4,b8**

**b4,b8**

**b4,b8**

Per the FDIC General Counsel letter, **b4,b8** believes the three requirements for pass through insurance are met:

<sup>8</sup> **b4,b8**

<sup>9</sup> <https://www.fdic.gov/regulations/laws/rules/5500-500.html>

- 1) Agency or custodial relationship must be disclosed in account records of the insured depository institution.

This is why the bank agreement between [b4,b8] requires that the bank notes the account is for the benefit of [b4,b8] holders. (See attached copy).

- 2) Identities and interests of the actual owners must be disclosed in the records of the depository institution or records maintained by the custodian or other party.

Records are maintained by [b4,b8] through its service provider, [b4,b8]. In discussion with counsel, the [b4,b8] team believes one benefit of using a blockchain ledger is having a real-time recordkeeping tool. At any time, [b4,b8] can query the real time account holdings of underlying [b4,b8] account holders, compared against the records of the registered names of each account holder. Non-business users are required to input their full legal name, email address and home address to set up a [b4,b8] account. Business users are required to input the legal name of the business, business address, EIN, business owner name and contact information, and business category in order to set up a [b4,b8] account. A business owner may have a business profile for [b4,b8] (for example, if they were to accept [b4,b8] for payment), as well as a separate personal profile to use [b4,b8] for personal use. Separate bank accounts may be linked to each profile using [b4,b8].

While it is possible for a user to create multiple [b4,b8] wallets using different email addresses, the [b4,b8] program does not believe this to be a material issue. There are limitations per the FinCEN Prepaid Closed Loop rule and [b4,b8] ODFI rules on how much can be loaded onto a wallet per day (\$2,000) and per week (\$5,000). The average [b4,b8] wallet holds a balance between [b4,b8] 50-100.

- 3) The deposits must be owned (under the contract between the parties or any applicable law) by the named owners and not by the custodian.

As noted above, per the [b4,b8] terms and conditions: "[b4,b8]  
**b4,b8**  
[b4,b8]"

In the event that pass-through insurance would not apply, and there is at least \$250,000 of deposits at [b4,b8] (currently about \$45,000), the [b4,b8] program could direct all remaining deposits to [b4,b8] chartered bank. [b4,b8] is eligible for the [b4,b8]

## VII. Additional technology related questions

1. What are the protocols if the [b4,b8] blockchain experiences backlogs, higher than normal transaction fees, changes to the network, failure, or a fork in the protocol?

If there is a failure and transactions don't execute at all, the user would simply pay for his or her purchase in an alternative form of payment. If the transactions are subject to delayed processing due to a backlog, it may be possible that the user abandons the transaction at the point of sale and pays with an alternative form of payment, and later the [b4,b8] transaction goes through, meaning that the vendor has received double the payment. In this case, the user will have a transaction confirmation in the [b4,b8] app as well as a store receipt from the purchase using the alternative payment form and may ask the store for a refund. The store can return the amount of [b4,b8] back to the user through the app. The [b4,b8] app also has a [b4,b8] [b4,b8] function available in the [b4,b8] transaction receipt in the app to make this process easier.

[b4,b8] currently subsidizes the [b4,b8] transaction fees. Typically the transaction fees are [b4,b8] [b4,b8]. By design, the [b4,b8] blockchain has a [b4,b8] [b4,b8] lower transaction fees, as it was designed for payment usage in mind. This is different from a Proof-of-Work blockchain like Bitcoin or Ethereum with unbounded gas (transaction) fees.

If there is a fork of the [b4,b8] blockchain, there are two possibilities. Unless the [b4,b8] program switches to the new fork, the default scenario is that transactions would continue to process transactions on the legacy [b4,b8] blockchain, provided there is at least one remaining validator on the legacy blockchain. Otherwise, to move transaction processing to the fork (or to any other blockchain for that matter), [b4,b8] tokens on the legacy chain would be permanently paused, creating a snapshot of the state of the [b4,b8] accounts on the legacy chain. The snapshot of the state of the [b4,b8] accounts would then be replicated by the issuance of new [b4,b8] tokens on the forked chain.

2. If selection and due diligence for the [b4,b8] network and [b4,b8] were not performed by the Bank, explain which entities were responsible for those functions.

[b4,b8] is ultimately responsible as the counterparty on the user agreements and the account holder of the [b4,b8] bank account.

3. Can the value, availability or usability of [b4,b8] change due to the nature of the open source projects?

Open source is a software copyright and licensing regime, which generally means that users may reuse the code (subject to specific terms in various open source software licenses). So that alone,



all else equal, would not have any bearing on the value, availability or usability of [b4,b8]. Replicating [b4,b8] code does not mean you have replicated the same asset but only that you have created a new asset (i.e. a new instance of the code) with the same software attributes.

The value of [b4,b8] is tied to its 1:1 backing by dollar reserves and [b4,b8]. [b4,b8]

The language [b4,b8] regarding potential risks with open source protocols referred to general risks with blockchains. Forking, for example, is possible with open source software by replicating the code (see above), making changes and deploying a new instance, which would require the creation of new digital tokens on the new chain should participants prefer the characteristics of a new chain. See above for our response to the [b4,b8] blockchain forking.

- 4. The system uses multiple smart contracts for processing. Please provide any due diligence done on the [b4,b8]. If there was an independent audit of the smart contracts, please provide the audit results.**

The [b4,b8] smart contract was subject to internal quality assurance testing prior to launch. [b4,b8] is currently evaluating third party smart contract auditors.

- 5. Are application programming interfaces (API) being used, and if so is the Bank involved with this?**

None of the APIs the software program uses integrate with any of the underlying [b4,b8]. [b4,b8]. The ACH processor, [b4,b8] uses APIs to access ACH rails, but these do not require integration with any of the [b4,b8] banks.

- 6. Which entity is the custodian/agent of the token?**

[b4,b8] provides custody of the Digital [b4,b8] wallets on its encrypted servers. The private key for a [b4,b8] wallet is associated with a user's account login credentials (username and password), which are securely stored through encrypted servers using the industry standard, AWS Secrets Manager.<sup>10</sup> AWS Secrets Manager enables security industry best practices such as rotating access credentials to the applications, multi-factor authentication, secrets credential auditing, etc.

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<sup>10</sup> <https://aws.amazon.com/secrets-manager/>

Per the **b4,b8** user terms and conditions (as well as **b4,b8** user terms and conditions), users are liable for unauthorized transactions and must safeguard their login credentials. This is no different than any other application, including **b4,b8** own application.

7. Will **b4,b8** be the only banks involved in the **b4,b8**?

There are no plans to add additional banks at the moment.

8. Describe what happens if **b4,b8** or any other party involved in this product cease to exist.

If **b4,b8** were to cease to exist, as stated previously in the user terms and conditions,

**b4,b8**

**b4,b8** could be replaced by another payment service provider and transactions from **b4,b8** could be moved to a different blockchain if **b4,b8** were to degrade (same process as mentioned above if there were a fork of **b4,b8** were moved to the new fork i.e. a forked chain is a separate and distinct blockchain).

# b4,b8

## b4,b8 Review Questions and Answers

Note: b4,b8 provided answers to the questions below in the document titled “FDIC Response August 12, 2022”. I took the comments in that document and put them under the questions that we asked below.

### BACKGROUND INFO PROVIDED

b4,b8 since b4,b8 has opened checking accounts held by a b4,b8 organization called b4,b8 whose mission is to keep money b4,b8 is the name of the b4,b8 currency program that b4,b8 started to promote patronage of b4,b8 businesses in b4,b8 and to keep deposits with b4,b8 banks such as ours, in lieu of using nationally issued credit cards. b4,b8 has become a well-known example of a successful b4,b8 currency project in the world, particularly in the United States.

b4,b8 are issued 1:1 against U.S. dollars and used only within a b4,b8 network of geographically bound b4,b8 businesses. The initial rendition of b4,b8 has been in the form of b4,b8 that tellers at participating banks provide to customers who exchange an equivalent amount of U.S. dollars in cash (i.e. Federal Reserve notes). Those U.S. dollars are deposited into a checking account held by b4,b8 on behalf of the b4,b8 program at b4,b8 as well as a b4,b8 bank b4,b8 With the advent of COVID accelerating the decline in the use of cash while increasing the use of credit cards and other forms of electronic payments, b4,b8 saw a need to provide a digital complement to its b4,b8 notes, first issued in b4,b8

Digital b4,b8 preserve the same fundamental structure as the b4,b8 program. Instead of a b4,b8 exchange of U.S. dollars for b4,b8 notes, users can download the b4,b8 app, link their bank account as a funding source to load their b4,b8 wallets and receive b4,b8 tokens upon settlement of an ACH transaction that moved funds from the user’s bank account to the holding account at b4,b8 Subsequent transactions of b4,b8 with b4,b8 merchants are settled over the b4,b8 blockchain network.

The b4,b8 tokens are bespoke b4,b8 that reflect the program design and are not wrappers around existing stablecoins in the market such as USD Coin (USDC). A b4,b8 token can only be minted upon receipt of equivalent funds in the holding account, and can only be retired upon a merchant requesting a cash out, whereby an ACH transfer is sent from the holding account to the merchant’s linked bank account. b4,b8 tokens can only be spent in a closed network in a limited geographic area and are not tradeable on any exchange. b4,b8 token issuances and redemptions can be reconciled against the ACH transfers to and from the

holding account; consequently, in the unlikely event of a catastrophic scenario, **b4,b8** tokens can be paused and correct balances subsequently redeployed. In the event of a wind down of the program itself, there would be account records showing **b4,b8** token balances of each user, which is equivalent to the amount of US dollars that the user could claim in a refund.

The bank's role with digital **b4,b8** is essentially the same as its role with **b4,b8** **b4,b8** which is simply to establish a checking account with an FDIC-insured bank to hold the underlying dollar deposits on behalf of the **b4,b8** holders. We opened a new checking account for **b4,b8** to hold dollar reserves just for digital **b4,b8**. The checking accounts for both **b4,b8** and digital **b4,b8** exclusively hold deposits on behalf of the notes/token holders and are not operational accounts of **b4,b8**.

#### A. Corporate Governance/Organization

1. Describe the due diligence and/or risk assessments performed by **b4,b8** related to Digital **b4,b8** including for any critical third parties (i.e. **b4,b8** **b4,b8**). Please provide all copies.

**b8** Comment: We received a copy of a risk assessment. It covers the digital and **b4,b8** **b4,b8**. None were provided for critical third parties. I spoke to the EIC who stated that management completed the risk assessment. **b4,b8** and their legal counsel prepared the presentation/regulatory overview which bank management reviewed. Bank management has worked with the **b4,b8**, management team for a number of years so they are a known entity. Bank management views this primarily as a deposit relationship with **b4,b8** being ultimately responsible for the review of the third parties that they engaged, e.g. **b4,b8** **b4,b8** etc... The bank does not consider these third parties as bank vendors so they did not go through the normal vendor due diligence process.

2. What risks were identified related to the **b4,b8** blockchain?

**b8** Comment: I do not see this specifically addressed, but the comment below addresses some risks.

3. What are the protocols if the **b4,b8** blockchain experiences backlogs, higher than normal transaction fees, changes to the network, failure, or a fork in the protocol?

**Bank Response:** If there is a failure and transactions don't execute at all, the user would simply pay for his or her purchase in an alternative form of payment. If the transactions are subject to delayed processing due to a backlog, it may be possible that the user abandons the transaction at the point of sale and pays with an alternative form of payment, and later the **b4,b8** transaction goes through, meaning that the vendor has received double the payment. In this case, the user will have a transaction confirmation in the **b4,b8** app as well as a store receipt from the purchase using the alternative payment form and may ask the store for a refund. The store can return the amount of **b4,b8** back to the user through the app. The **b4,b8** app



also has a “ [b4,b8] ” function available in the [b4,b8] transaction receipt in the app to make this process easier.

[b4,b8] currently subsidizes the [b4,b8] transaction fees. Typically the transaction fees are [b4,b8] [b4,b8]. By design, the [b4,b8] blockchain has a [b4,b8] for lower transaction fees, as it was designed for payment usage in mind. This is different from a Proof-of-Work blockchain like Bitcoin or Ethereum with unbounded gas (transaction) fees.

If there is a fork of the [b4,b8] blockchain, there are two possibilities. Unless the [b4,b8] program switches to the new fork, the default scenario is that transactions would continue to process transactions on the legacy [b4,b8] blockchain, provided there is at least one remaining validator on the legacy blockchain. Otherwise, to move transaction processing to the fork (or to any other blockchain for that matter), [b4,b8] tokens on the legacy chain would be permanently paused, creating a snapshot of the state of the [b4,b8] accounts on the legacy chain. The snapshot of the state of the [b4,b8] accounts would then be replicated by the issuance of new [b4,b8] tokens on the forked chain.

4. What was [b4,b8] role in selecting critical vendors and selecting the [b4,b8] network? Does [b4,b8] have any role in the governance and the operations (e.g., node) of the [b4,b8] network?
- If selections and due diligence was not performed by the bank, explain which entities are responsible for those functions.

**Bank Response:** [b4,b8] is ultimately responsible as the counterparty on the user agreements and the account holder of the [b4,b8] bank account.

5. Can the value, availability or usability of a [b4,b8] change due to the nature of the open source projects?

**Bank Response:** Open source is a software copyright and licensing regime, which generally means that users may reuse the code (subject to specific terms in various open source software licenses). So that alone, all else equal, would not have any bearing on the value, availability or usability of [b4,b8]. Replicating the [b4,b8] code does not mean you have replicated the same asset but only that you have created a new asset (i.e. a new instance of the code) with the same software attributes.

The value of [b4,b8] is tied to its 1:1 backing by dollar reserves and [b4,b8] is not [b4,b8]

The language in the [b4,b8] regarding potential risks with open source protocols referred to general risks with blockchains. Forking, for example, is possible with open source software by replicating the code (see above), making changes and deploying a new instance, which would require the creation of new digital tokens on the new chain should participants prefer the characteristics of a new chain. See above for our response to the [b4,b8] blockchain forking.

**6. Who completed the Regulatory Overview (see Exhibit 1) that was provided?**

**Bank Response:** The [b4,b8] team created the presentation/regulatory overview with review by their [b4,b8] [b4,b8] and presented it together to the bank in August 2021 as part of an educational process. [b4,b8] has not prepared a formal [b4,b8] which they do not believe is necessary given the current structure and size of the program. [b4,b8] did also review the document we sent you Friday.

**7. Provide any related policies and procedures.**

[b8] **Comment:** None provided.

**B. Pass Through Insurance**

**1. Explain [b4,b8] understanding of how FDIC deposit insurance works.**

**Bank Response:**

The [b4,b8] team has carefully drafted with [b4,b8] the user terms and conditions under which [b4,b8] endeavors to ensure that the underlying dollar deposits, but not the [b4,b8] tokens themselves, are protected by FDIC insurance in the event [b4,b8] the underlying banks were to become insolvent.

Below is the relevant language in the user terms and conditions: (see Exhibit 2)

**b4,b8**

# b4,b8

**b4,b8** refers to the published opinion letter from the FDIC General Counsel<sup>2</sup> office which broadly defines what constitutes a "deposit" for purposes of FDIC insurance, including pass through insurance and deposits as related to stored value and non-traditional access mechanisms (such as electronic access mechanisms). Ultimately, a **b4,b8** token is a user claim against a corresponding dollar deposited with **b4,b8** banks. As noted in the user terms and conditions, “[**b4,b8**]

[**b4,b8**  
**b4,b8**  
**b4,b8**]

Per the FDIC General Counsel letter, **b4,b8** believes the three requirements for pass through insurance are met:

- 1) Agency or custodial relationship must be disclosed in account records of the insured depository institution.

This is why the bank agreement (see Exhibit 3) between **b4,b8** requires that the bank notes the account is for the benefit of **b4,b8** holders. (See attached copy).

<sup>1</sup> **b4,b8**

<sup>2</sup> <https://www.fdic.gov/regulations/laws/rules/5500-500.html>

- 2) Identities and interests of the actual owners must be disclosed in the records of the depository institution or records maintained by the custodian or other party.

Records are maintained by [b4,b8] through its service provider, [b4,b8]. In discussion with counsel, the [b4,b8] team believes one benefit of using a blockchain ledger is having a real-time recordkeeping tool. At any time, [b4,b8] can query the real time account holdings of underlying [b4,b8] account holders, compared against the records of the registered names of each account holder. Non-business users are required to input their full legal name, email address and home address to set up a [b4,b8] account. Business users are required to input the legal name of the business, business address, EIN, business owner name and contact information, and business category in order to set up a [b4,b8] account. A business owner may have a business profile for [b4,b8] (for example, if they were to accept [b4,b8] for payment), as well as a separate personal profile to use [b4,b8] for personal use. Separate bank accounts may be linked to each profile using [b4,b8].

- 3) The deposits must be owned (under the contract between the parties or any applicable law) by the named owners and not by the custodian.

As noted above, per the [b4,b8] terms and conditions: "[b4,b8]

**b4,b8**

In the event that pass-through insurance would not apply, and there is at least \$250,000 of deposits at [b4,b8] Bank (currently about \$45,000), the [b4,b8] program could direct all remaining deposits to [b4,b8], which, as a [b4,b8], is eligible for the

[b4,b8]

[b4,b8]

2. Describe any analysis that [b4,b8] performed to determine whether the Digital [b4,b8] and any related third party's account agreements are accurate as it relates to deposit insurance.

[b8] Comment: Not addressed

3. Provide copies of any documents reflecting where pass-through insurance is disclosed/advertised.

[b8] Comment: See Exhibit 2 - terms and conditions.



4. Will there be any expectations of accounts exceeding insurance limits (this could pertain to a customer at the bank that also has [b4,b8]), and if so, how will be managed (i.e. sweep accounts)?

[b8] Comment: This is addressed in the terms and conditions

[b4,b8]

**b4,b8**

C. [b4,b8]

1. For the [b4,b8] version, was [b4,b8] considered an issuer since the tellers would provide customers with [b4,b8]?

Response: The initial rendition of [b4,b8] has been in the form of [b4,b8] that tellers at participating banks provide to customers who exchange an equivalent amount of U.S. dollars in cash (i.e., Federal Reserve notes). Those U.S. dollars are deposited into a checking account held by [b4,b8] on behalf of the [b4,b8] program at [b4,b8], as well as a second [b4,b8] bank. [b4,b8]

[b8] Comment: Appears to have facilitated the exchange of the US dollars and the notes. I don't think the question was directly answered, but it does not appear they were "issuers".

2. Provide the [b4,b8] agreement with [b4,b8]

Response: See Exhibit 6.

3. The history of [b4,b8] indicate an offer of \$0.95 to obtain \$1 in [b4,b8]. When the merchant redeemed the [b4,b8] did they only get \$0.95?

[b8] Comment: Not addressed

4. Will there be any similar [b4,b8] with the Digital currency, or will it be 1:1?

[b8] Comment: They are exchanged 1:1.

**D. Functionality**

1. Explain how [b4,b8] views their role in the Digital [b4,b8] (ie. are they just a holder of reserves)

**Response:** The bank's role with digital [b4,b8] is essentially the same as its role with [b4,b8], which is simply to establish a checking account with an FDIC-insured bank to hold the underlying dollar deposits on behalf of the [b4,b8] holders. We opened a new checking account for [b4,b8] to hold dollar reserves just for digital [b4,b8]. The checking accounts for both [b4,b8] digital [b4,b8] exclusively hold deposits on behalf of the notes/token holders and are not operational accounts of [b4,b8].

The role of [b4,b8] is limited to maintaining the checking account established by its business client [b4,b8] for the purpose of its [b4,b8] program.

2. Who is the issuer of the [b4,b8] tokens (ie. bank involvement or only through [b4,b8] through the app)?

**Bank Response:** Upon successful completion of the ACH transaction to [b4,b8] [b4,b8] sends a confirmation to the [b4,b8] software program through its API, upon which the [b4,b8] smart contract would mint (i.e., create) 50 [b4,b8] tokens to Alice's wallet.

3. Describe the roles of all parties of Digital [b4,b8] including, but not limited to, [b4,b8]

**Bank Response:**

- The role of [b4,b8] is limited to maintaining the checking account established by its business client [b4,b8] for the purpose of its Digital [b4,b8] program.
  - [b4,b8] is a technology service provider that works with [b4,b8] in designing, implementing and operating the Digital [b4,b8] program.
  - [b4,b8] is a payments platform that provides ACH services for funding [b4,b8] wallets and redemptions, as well as [b4,b8] through its service provider, [b4,b8].
  - [b4,b8] is a public blockchain network upon which [b4,b8] transactions are settled, and it functions as a ledger for all on-chain [b4,b8] transactions.
4. Has [b4,b8] engaged an independent Smart Contract auditor? If so, provide audit results.
  5. The system use multiple smart contracts for processing. Please provide any due diligence done on the smart contracts. If there was an independent audit of the smart contracts, please provide the audit results.

**Bank Response:** The [b4,b8] was subject to internal quality assurance testing prior to launch. [b4,b8] is currently evaluating third party smart contract auditors.

6. Is Digital [b4,b8] still in [b4,b8] testing or live/fully functioning for any interested customer?
- If fully functioning, provide the final/executed Digital [b4,b8] Bank Agreement.

**Bank Response:** Digital [b4,b8] was recently introduced to the [b4,b8] in [b4,b8] mode on [b4,b8]

7. Will [b4,b8] be the only banks involved in the Digital [b4,b8]

**Bank Response:** There are no plans to add additional banks at the moment.

**Funding the [b4,b8] Wallet**

1. What is the process of setting up a “[b4,b8]” ([b4,b8]) through the [b4,b8] App?
- What parties are involved? (consumer/merchant/bank/third party, [b4,b8] [b4,b8]).

**Response:** The user links bank account using [b4,b8]. In order for a user to link a bank account and to initiate ACH transactions, a user in the [b4,b8] app is required to affirmatively consent to the ACH processor [b4,b8] user terms of service<sup>3</sup> and privacy policy.<sup>4</sup> This provides permission for [b4,b8] and its related organizations, such as [b4,b8] ACH ODFI, [b4,b8] [b4,b8] to initiate ACH transactions.

[b4,b8] provides its own white-label bank account linking service through [b4,b8] as a default option, but [b4,b8] is also compatible with other popular bank account linking services such as Plaid (owned by Visa), Finicity (owned by Mastercard) or MX. None of [b4,b8] [b4,b8] directly interact with the bank account linking service. Per standard industry security practices for [b4,b8] services, the user connects to her [b4,b8] through encrypted data to authenticate bank account information that is not stored on the servers of any of the parties involved in [b4,b8]

2. Describe the transfer of funds process through a sample transaction (i.e. beginning with funding from the [b4,b8] through minting and redemption). Specifically:
- Where does the money go once removed from the [b4,b8]?

[b4,b8]

- Can the **b4,b8** Wallet be used to store USD without the conversion to Digital **b4,b8** or does the customer upload \$ to the Wallet and immediately buy the token? If it can be stored, how long can it be stored?
- When the funds are transferred from the **b4,b8** and converted to a token is the agent issuing a separate security or is it the immediate purchase of a token which is a prepaid purchase.
- Upon transfer from the **b4,b8** how and when do the funds go to **b4,b8** **b4,b8** pooled account?
- What does pre-funding your wallet mean and how is that process performed?

**b4,b8**

**Response:** Once a bank account is linked, the user may then choose to load her **b4,b8** wallet. The only way to fund a **b4,b8** wallet is by transferring an equivalent amount of U.S. dollars from the bank account the user has linked as a funding source. For example, if Alice wished to load 50 **b4,b8** to her wallet, she would first link her personal bank account, e.g., Chase, then select loading 50 **b4,b8**. Upon confirmation, an ACH transaction is sent via **b4,b8** to its ODFI to initiate an ACH debit for \$50 from Alice's account to the ODFI. The \$50 ACH debit would sit with **b4,b8** ODFI for a few days, typically 3 bank days, to ensure there are no non-sufficient fund (NSF) returns. Upon that satisfaction, the ODFI would initiate an ACH credit transaction of \$50 to the **b4,b8** account at **b4,b8**. Upon successful completion of the ACH transaction to **b4,b8**, **b4,b8** sends a confirmation to the **b4,b8** software program through its API, upon which the **b4,b8** smart contract would mint (i.e., create) 50 **b4,b8** tokens to Alice's wallet.

The **b4,b8** wallet cannot hold any USD itself, only **b4,b8** tokens. The **b4,b8** tokens can only be created upon a successful ACH transaction of an equivalent dollar amount from the user's linked bank account, i.e., it is a prepaid transaction. Faster issuance of **b4,b8** tokens is dependent on using faster underlying payment rails, e.g., paying extra for same day ACH or other instant payment rails, which are effectively all working capital solutions offered by an ODFI to bear the risk of NSFs. Irrespective of these underlying mechanisms, the core principle is that **b4,b8**



b4,b8

b4,b8

Once in the user's wallet, there is no expiration date for b4,b8 tokens.

- Who is the ODFI initiating transfers?

**Bank Response:** The response notes that b4,b8 ODFI is b4,b8

- What is the process to redeem/cash out Digital b4,b8 to USD for both b4,b8 users and merchants paid in b4,b8? What are the redemption limits and transaction fees? And how is the process recorded on a general ledger?
- Can Digital b4,b8 holders redeem b4,b8 at the bank or are they redeemed solely via ACH credit to the b4,b8?

**Bank Response:** Only business profiles can redeem b4,b8 tokens back to U.S. dollars without limitation, also consistent with b4,b8 ODFI rules. Businesses are accepting b4,b8 for bona fide goods and services. On the other hand, users who are not vendors can only redeem for U.S. dollars if their balance is equivalent to b4,b8

b4,b8

b4,b8

This rule is consistent with many gift card programs (including multi-vendor programs), closed loop prepaid exemptions (see below), and state gift card *de minimis* rules.

To facilitate a redemption, the merchant would initiate a cash out request in the app, indicating the amount of the withdrawal. Merchants may link a separate bank account to their business profile (if they also maintain a personal profile). The b4,b8 program charges a 1.5% fee to withdraw in order to cover backend ACH costs, with a minimum fee of \$0.50. The fees are displayed in the b4,b8 app. As an example, if Alice is the proprietor of a sheep farm where she sells lamb chops at the farmers market, and she wishes to redeem b4,b8 100, then the transaction fee would be \$1.50, netting her a withdrawal of \$98.50.

Upon Alice confirming her redemption of b4,b8 100, the fee of b4,b8 1.50 is sent to a wallet owned by the b4,b8 program to hold the transaction fees in the form of b4,b8. These may be later redeemed to U.S. dollars to pay for the b4,b8 ACH fees. The other b4,b8 98.50 is immediately burned (or retired) from circulation on the b4,b8 blockchain and removed from the user's wallet. At the same time, an ACH transaction request is sent to b4,b8 to debit \$98.50 from the b4,b8 checking account at b4,b8 which is held by the ODFI for a number of days to account for any NSF returns, and then sent as an ACH credit to Alice's linked business bank account. In the redemption process, the tokens must be immediately retired from circulation in order to prevent customers from spending b4,b8 whose underlying dollar values are in the process of withdrawal from the b4,b8 checking account. This keeps b4,b8 backed 1:1 against the underlying dollar deposits.

- How is determined what funds will be at which bank?

○ **How does the pooling of deposits work?**

**Bank Response:** The **b4,b8** software program will try to split deposits and redemptions as evenly as possible between **b4,b8**. The general rule is the **b4,b8** software program will direct **b4,b8** to send user deposits to the bank with the lower balance and to withdraw user redemptions from the bank with the higher balance. For example, deposits will go to Bank A until Bank A has a higher balance than Bank B and redemptions will be drawn from Bank A until Bank B has the higher balance. Over time, this should average out that both banks hold roughly the same balance.

**b4,b8** through the **b4,b8** team has created a prototype of the compliance portal, which organizes transaction data in a more human-readable way by: a) reconciling dollar deposits with on-chain minting of corresponding **b4,b8** tokens, b) reconciling dollar withdrawals with on-chain burning of corresponding **b4,b8** tokens, c) organizing **b4,b8** transactions and on-chain transactions according to user. The team is currently commencing the coding and testing phase of the compliance portal.

**3. What are the counterparty risks of the exchange wallet?**

**Bank Response:** The real counterparty risk is that the user who is loading the **b4,b8** wallet has a NSF return, which is why the **b4,b8** ODFI will hold funds for typically 3 bank days before processing the ACH credit to the **b4,b8** program account at **b4,b8** at which point the **b4,b8** software program would create the corresponding tokens. In the rare event that there is a subsequent reversal of the ACH transaction after **b4,b8** tokens have been minted, **b4,b8** makes clear in the user terms and conditions, mirroring language that the user has agreed to also in the **b4,b8** terms and conditions. (the **b4,b8**

**b4,b8** **b4,b8** **b4,b8**  
**b4,b8**

**b4,b8** Users must agree to **b4,b8** user terms and conditions upon signing up for an account, and a copy is always available at the **b4,b8** website. The user terms and conditions also contain risk disclosures.

**4. Explain how the limitations in the Wallet were derived.**

**b8** **Comment:** See below for FinCEN discussion

**5. What controls are in place to ensure a customer can only have one wallet?**

**Bank Response:** While it is possible for a user to create multiple **b4,b8** wallets using different email addresses, the **b4,b8** program does not believe this to be a material issue.

There are limitations per the FinCEN Prepaid Closed Loop rule and [b4,b8] ODFI rules on how much can be loaded onto a wallet per day (\$2,000) and per week (\$5,000). The average [b4,b8] wallet holds a balance between [b4,b8] 50-100.

E. [b4,b8] **Role and Role of Custodian/Agent**

1. What type of deposit account(s) were set up at [b4,b8] and what is the ownership of the account(s)? Provide the titling of the account(s).

[b8] **Comment:** Not specifically addressed but T&C state “[b4,b8]  
[b4,b8]  
[b4,b8] We are waiting for the account statements.

2. Who is the custodian/agent of the holding account?

[b8] **Comment:** Not specifically addressed, but terms and conditions state “[b4,b8]  
[b4,b8]

3. Which party maintains the records that evidence ownership of the deposits?
  - o How does [b4,b8] know the names and identities of persons on whose behalf each custodian/agent is acting?

[b8] **Comment:** It appears they do not have this information at this time. The EIC started the bank can't tell by looking at the deposit account. They only see debits and credits as the shares are purchased and redeemed. The compliance portal, which they don't have access to at this time will have more information that identifies the owner. The Regulatory Overview on page [b4,b8] [b4,b8] has a sample.

4. What is the current outstanding balance of the holding account(s) at [b4,b8]? And what is expected volume?

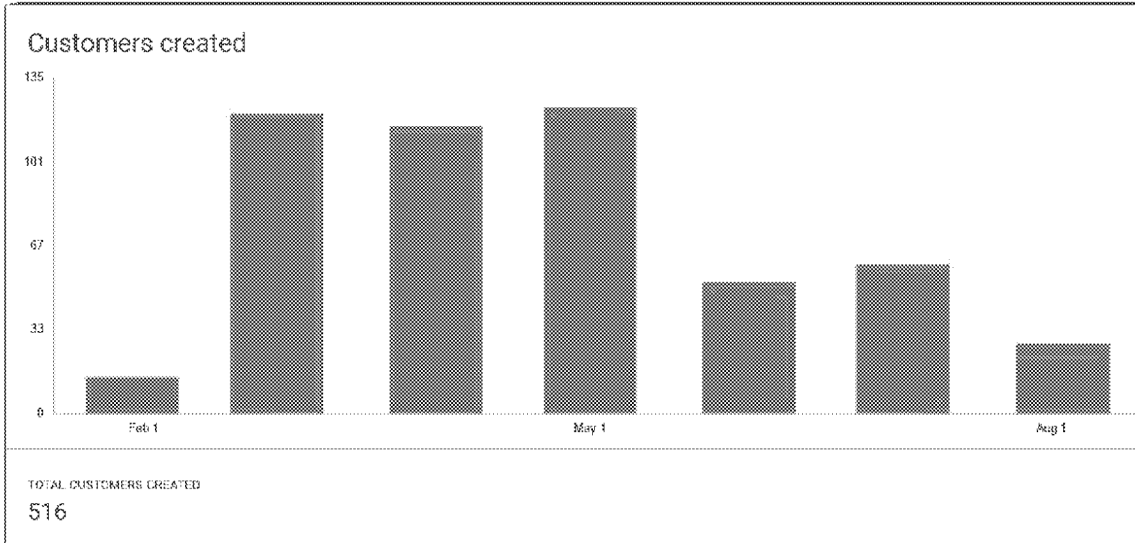
[b8] **Comment:** The July statement shows a balance of \$24M. No answer on expected volume, but so far it is [b4,b8]

5. Does [b4,b8] know the total transaction volume for [b4,b8] through 7/30/22? (number of [b4,b8] issues and number of [b4,b8] redeemed). If so, provide details.

**Bank Response:** The transactions for [b4,b8] are as follows:

Period: 02/10/2022 to 08/10/2022

Total number of Customer created accounts : 516



Total **b4,b8** minted: \$95,418 (35,418 from user deposits through **b4,b8** ACH + 60,000 treasury to fund user **b4,b8** for account sign-ups)

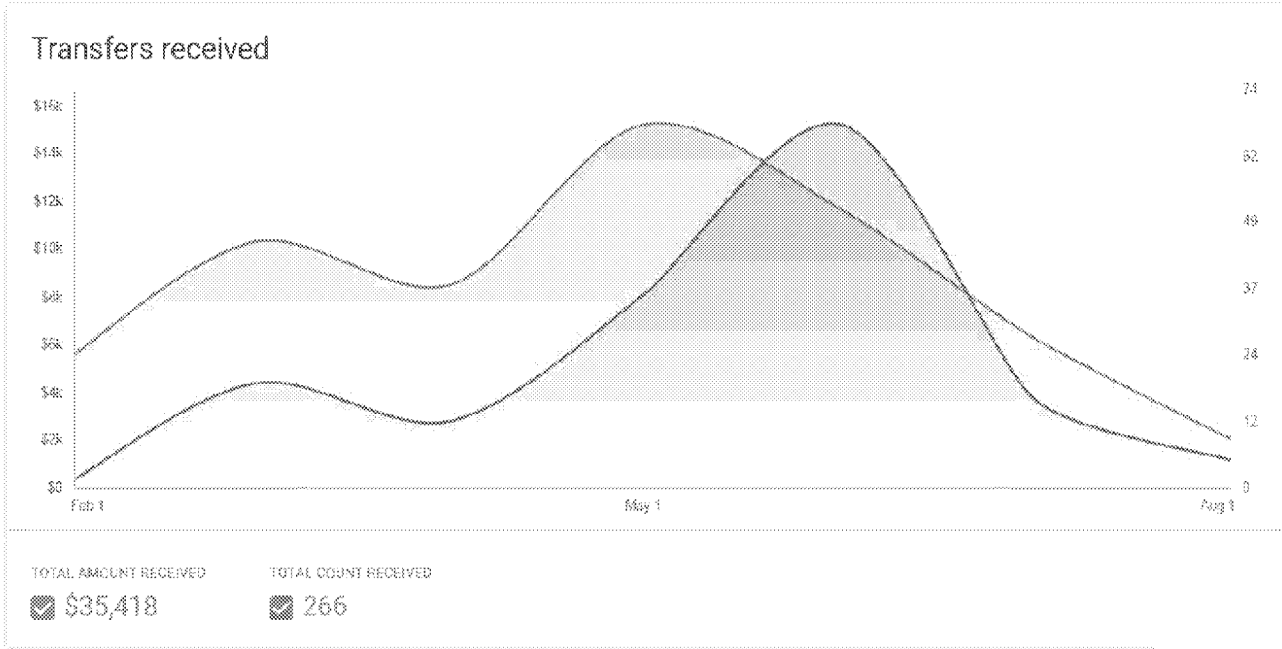
**b4,b8** funded for **b4,b8** treasury (can be used for **b4,b8** etc.):

Amount Received: \$50,000 + \$10,000 **b4,b8** **b8** Comment: As part of the launch \$10 in **b4,b8** are given to each user that signs up and activates a wallet.

**b4,b8** minted: \$60,000

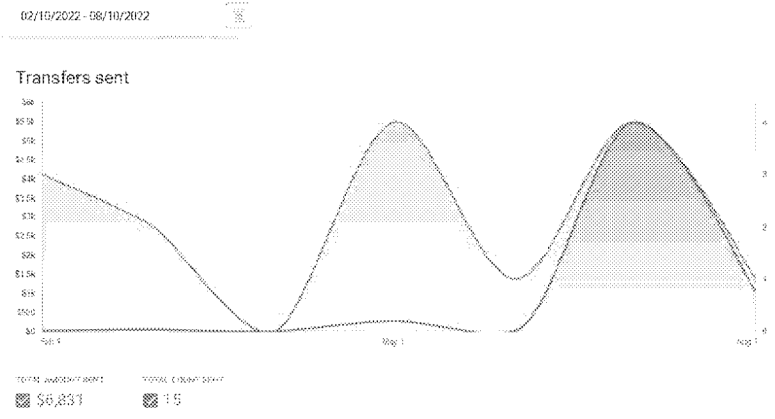
Below is a graph of user Deposits through **b4,b8** ACH and converted to **b4,b8** \$35,418





### Retired

**b4,b8** redeemed/retired from user withdrawals: \$6,831



Average volume of transactions:

1,696 total on-chain transactions YTD

Average transactions per month = 212

**6. Provide account statements for June and July 2022.**

**b8** Comment: See attached Exhibits 5 and 7.

**7. Which entity is the custodian/agent of the token?**

- **What type of custody? (i.e. self-custody through the app, Smart contract wallet, hot storage, cold storage, etc.)**
- **Does the custodian hold the private key on behalf of the asset holder?**

**Bank Response:** **b4,b8** provides custody of the Digital **b4,b8** wallets on its encrypted servers. The private key for a **b4,b8** wallet is associated with a user's account login credentials (username and password), which are securely stored through encrypted servers using the industry standard, AWS Secrets Manager.<sup>5</sup> AWS Secrets Manager enables security industry best practices such as rotating access credentials to the applications, multi-factor authentication, secrets credential auditing, etc.

Per the **b4,b8** user terms and conditions (as well as **b4,b8** user terms and conditions), users are liable for unauthorized transactions and must safeguard their login credentials. This is no different than any other application, including **b4,b8** own application.

**8. Provide copies of any agreements and disclosures involving the bank (with **b4,b8** users, and any other parties).**

**b8** Comment: See Exhibit 3 for the agreement and Exhibit 2 terms and conditions.

**9. Are any disclosures made to customers? If so, how do customers receive them? Please provide a copy.**

**Bank Response:** The only disclosure referenced is the terms and conditions that they receive when they open an account on the app. The bank response also states the user terms and conditions also contain risk disclosures.

**10. Can the customer dismiss the agent/custodian and go directly to the Bank?**

**b8** Comment: Not addressed, but it does not appear so from the flow of funds.

**F. **b4,b8** Oversight**

**1. Explain the Compliance Portal (what it does and how it will be used) and what phase the Compliance Portal testing is in.**

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<sup>5</sup> <https://aws.amazon.com/secrets-manager/>

**Bank Response:** The bank does not have access to the Compliance Portal as of today.

**b4,b8** through the **b4,b8** team has created a prototype of the compliance portal, which organizes transaction data in a more human-readable way by: a) reconciling dollar deposits with on-chain minting of corresponding **b4,b8** tokens, b) reconciling dollar withdrawals with on-chain burning of corresponding **b4,b8** tokens, c) organizing **b4,b8** transactions and on-chain transactions according to user. The team is currently commencing the coding and testing phase of the compliance portal.

2. Provide a copy of the **b4,b8** Agreement referenced in the draft Digital **b4,b8** Bank Agreement as being attached.

**b8** Comment: No comment, but it is not finalized.

3. Will Digital **b4,b8** be included in the internal audit program?

**b8** Comment: Not addressed.

#### G. General Questions (Safety and Soundness, Due Diligence, Oversight)

1. Describe what happens if **b4,b8** or any other party involved in this product cease to exist.

**Bank Response:** If **b4,b8** were to cease to exist, as stated previously in the user terms and conditions, the underlying dollar funds would be returned to the **b4,b8** holders, who would be notified to redeem their **b4,b8** tokens for the dollar equivalent amount through the **b4,b8** app. Funds remaining from any unredeemed **b4,b8** would be subject to **b4,b8** escheatment laws and it is noted in the **b4,b8** bank agreement that an account may be required to remain open for a period of time to comply with escheatment rules.

**b4,b8** could be replaced by another payment service provider and transactions from **b4,b8** could be moved to a different blockchain if **b4,b8** were to degrade (same process as mentioned above if there were a fork of **b4,b8** were moved to the new fork i.e. a forked chain is a separate and distinct blockchain).

2. Provide the marketing materials for the Digital **b4,b8** program.

**Bank Response:** No marketing has been done to date apart from **b4,b8** **b4,b8** has placed in **b4,b8** **b4,b8**

#### H. BSA

1. Explain why **b4,b8** believes Digital **b4,b8** are considered **b4,b8**
2. Based upon FinCEN's 2011 rule on prepaid access cards, has **b4,b8** determined if **b4,b8** is considered a MSB? What is the basis for the determination?

3. Explain what BSA exemptions **b4,b8** feels are applicable to **b4,b8** and reference material was used for the determination.

**b4,b8** believe that the **b4,b8** program fits the requirements of the FinCEN Prepaid Closed Loop Rule of 2011,<sup>6</sup> which is an exemption from the Bank Secrecy Act (BSA) and, therefore, registration as a money services business (MSB). Operators of prepaid programs are exempt from the definition of a money transmitter pursuant to 31 CFR § 1010.100(f)(5)(i)(E).<sup>7</sup> The **b4,b8** program believes that the categorization as a **b4,b8** is not dependent on the access mechanism (e.g. digital wallet), but turns on **b4,b8** core purpose and economic substance **b4,b8**. By its very definition and purpose as a **b4,b8** is not meant to be used **b4,b8** with heavy representation of **b4,b8**. There are currently about **b4,b8** such **b4,b8** businesses registered to accept **b4,b8**. The **b4,b8** team is based **b4,b8** and works closely with **b4,b8** businesses to onboard them and train them to accept digital **b4,b8**.

According to FinCEN, “the term ‘defined merchant’ in the definition of closed loop prepaid access is not limited to a single merchant and its affiliates and may include additional unaffiliated partner merchants joined for the limited purpose of providing a closed loop prepaid access program.” See Question 3: Defined Merchant in the context of closed loop prepaid access in FinCEN FAQs.<sup>8</sup> Accordingly **b4,b8** merchants, which are **b4,b8** businesses, need not be legally affiliated with each other in order for **b4,b8** currency and payment rails, to qualify as closed loop.

Furthermore, FinCEN notes that 31 CFR 1010.100(kkk) defines closed loop prepaid access as “[p]repaid access to funds or the value of funds that can be used only for goods or services in transactions involving a defined merchant or location (or set of locations), such as a specific retailer or retail chain, a college campus, or a subway system.” (Emphasis added by FinCEN). *Id.* “As long as the universe of merchants is identifiable and articulated to the purchasing public, and the partner merchants are joined for the limited purpose of providing a closed loop prepaid access program, such an arrangement falls within the term ‘defined merchant.’” *Id.* Participating merchants are readily identifiable through the **b4,b8** app under “Where to Spend.”

As described above, **b4,b8** are 1:1 backed by federal dollars held by **b4,b8** banks, **b4,b8**. Each **b4,b8** is a digital token representing one pre-funded US dollar. **b4,b8** cannot be created until there is confirmation from the ACH

<sup>6</sup> <https://www.fincen.gov/sites/default/files/shared/20110726b.pdf>

<sup>7</sup> <https://www.law.cornell.edu/cfr/text/31/1010.100>

<sup>8</sup> <https://www.fincen.gov/resources/statutes-regulations/guidance/frequently-asked-questions-regarding-prepaid-access>



processor that the corresponding amount of U.S. dollars has been deposited to the **b4,b8** program checking account at **b4,b8**. Conversely, when a participating **b4,b8** merchant wishes to redeem **b4,b8** back to USD, the **b4,b8** will be retired immediately, and a transfer will be initiated to move a corresponding number of federal dollars from one of two **b4,b8** reserve banks to the merchant's business bank account. Accordingly, **b4,b8**

One key condition for the applicability of the prepaid closed-loop exemption to apply is that load amounts are limited to \$2,000 per day per device. "[A]s long as the program adhered to the \$2,000 maximum value established by FinCEN's prepaid access regulation for exclusion, the standard of a 'defined merchant' has been met." *Id.* The **b4,b8** software program enforces this limitation in the **b4,b8** app under **b4,b8**

FinCEN also removed additional proposed restrictions for the closed loop rule. Per the federal register explaining the final FinCEN prepaid rule based on public comments, the only restriction for closed loop prepaid is the \$2,000 daily limit. The other restrictions (international use, peer to peer transfer, non-depository reloads) were removed based on public feedback and only apply to open loop:

"As discussed above, the exemption for closed loop prepaid access has been changed in response to comments. The exemption now applies to closed loop prepaid access of less than \$2,000 maximum value. Unlike the NPRM, it exempts such closed loop prepaid access even if it allows international use, transfers within the prepaid program, or loading from nondepository sources. We believe these changes more accurately reflect the risks associated with closed loop prepaid access."<sup>9</sup>

Accordingly, peer-to-peer transfers are allowed within the **b4,b8** app, but only registered merchants are allowed to redeem **b4,b8** for U.S. dollars (non-merchants are subject to the *de minimis* rule), which is also an additional safeguard in the system. Furthermore, the FinCEN prepaid closed loop rule was written in the context of cash deposits, whereas with the digital **b4,b8** program, all funding sources are depository institutions, which provides an additional layer of protection.

In addition to the \$2,000 daily loading limitation under the FinCEN prepaid closed loop rule, **b4,b8** follows **b4,b8** ODFI rule limiting deposits from non-KYC accounts to \$5,000 per week. This rule is enforced by **b4,b8** ODFI.

**b4,b8** does collect some user identifying information as part of the account opening process (see below under the FDIC pass-through insurance recordkeeping discussion).

Finally, **b4,b8** does not need to register as a money services business with the **b4,b8**

<sup>9</sup> <https://www.govinfo.gov/content/pkg/FR-2011-07-29/pdf/2011-19116.pdf>



**b4,b8**

4. What is required to open up a **b4,b8** Wallet and obtain a **b4,b8** account? Are there any KYC/AML/CIP requirements and which entity performs the KYC and verification process?

Bank Response: **b4,b8** is responsible for KYC, AML and OFAC screening of **b4,b8** as it would for any other client of the bank. for **b4,b8**

**b4,b8** ODFI, **b4,b8** is similarly responsible for KYC, AML and OFAC screening for its customers, including **b4,b8**

Non-business users are required to input their full legal name, email address and home address to set up a **b4,b8** account.

**b8** Comment: Due to the perceived exemptions, there does not appear to be any KYC for someone purchasing a **b4,b8**

5. **b4,b8** notes in their terms and conditions that they are not a money transmitter and do not perform money transmission or money transfer or payment of services. What analysis did **b4,b8** perform of the services provided by **b4,b8** to ensure they are not a money service business (MSB)?

**b8** Comment: The following questions were not answered. I believe that is due to the bank's answers above related to exemptions.

6. Who is responsible for monitoring of Digital **b4,b8** dollar limits and usage?  
7. Do automated monitoring systems have the ability to establish parameters for monitoring these transactions? **b8** Comment: The bank will not see this information.  
8. How is OFAC applied and who is responsible?  
9. Does the customer or third party vendor have any suspicious activity monitoring processes that it uses on their end with the bank?  
10. Who and how are ACH transactions and block chain transactions monitored?

11. Explain how process of monitoring for suspicious activity. Does **b4,b8** flow into the **b4,b8** system?

Bank Response: The **b4,b8** account will be in **b4,b8** and monitored as outlined in the BSA program.

10

**b4,b8**

12. Can Digital **b4,b8** be transferred to other individuals? For example, if one person purchased the **b4,b8** but then gave the **b4,b8** to someone else to use **b4,b8**?

**b8** Comment: The response noted: Accordingly, peer-to-peer transfers are allowed within the **b4,b8** app, but only registered merchants are allowed to redeem **b4,b8** for U.S. dollars (non-merchants are subject to the *de minimis* rule), which is also an additional safeguard in the system. Furthermore, the FinCEN prepaid closed loop rule was written in the context of cash deposits, whereas with the digital **b4,b8** program, all funding sources are depository institutions, which provides an additional layer of protection.

13. Explain the SAR filing responsibility if **b4,b8** is made aware of suspicious activity by a third party, if applicable?

**Bank Response:** The Bank would take the information, review the activity and file in accordance to policies and procedures. Since **b4,b8** is a customer we also have oversight and account monitoring.

14. Explain how reputational risk is minimized if **b4,b8** is associated with **b4,b8** and something goes wrong?

**b8** Comment: No response

#### **I. Information Technology and Vendor Due Diligence**

1. Provide clarity on whether application programming interfaces (APIs) are being used. The **b4,b8** highlights that there is no need for integration or the use of APIs, however the **b4,b8** **b4,b8** indicates the use of APIs with banking partners.

**Bank Response:** None of the APIs the software program uses integrate with any of the underlying **b4,b8** holding banks **b4,b8**. The ACH processor, **b4,b8** uses APIs to access ACH rails, but these do not require integration with any of the **b4,b8** banks.

2. How does **b4,b8** plan to risk rate **b4,b8** for the new digital program?

**b8** Comment: No response

**From:** [b8]  
**To:**  
**Subject:** RE: [b4,b8] Exam  
**Date:** Wednesday, October 05, 2022 7:57:00 AM

---

Thanks!

[b8]

Case Manager

[b8]

Office: [b8]

Mobile: [b6,b8]

**From:** [b8]

**Sent:** Wednesday, October 05, 2022 7:36 AM

**To:** [b8]

**Cc:** [b8]

**Subject:** RE: [b8] Exam

Hi [b8] I will see if bank management is available next week, Thursday AM or Friday for an exit meeting.

[b8]

**From:** [b8]

**Sent:** Tuesday, October 4, 2022 7:09 PM

**To:** [b8]

**Subject:** RE: [b8] Exam

Ok. I misunderstood. I thought we would bring to their attention and then exit since we typically don't bring anything new up at an exit meeting. But since there will be nothing in the ROE related to it, that seems fine also.

[b8]

Case Manager

[b8]

Office: [b8]

Mobile: [b6,b8]

**From:** [b8]

**Sent:** Tuesday, October 04, 2022 3:58 PM

**To:** [b8]

**Subject:** RE: **b4,b8** Exam

I thought the plan was to discuss these issues at the mgt exit meeting and to let the bank know that the other aspects of the **b4,b8** program will be followed up outside of the exam. He can also let the bank know that we would appreciate an update on their follow up on this MSB issue.

**From:** **b8**

**Sent:** Tuesday, October 04, 2022 3:11 PM

**To:** **b8**

**Subject:** RE: **b4,b8** Exam

Thank you, **b8**

So, is it correct that **b8** can call, go over these talking points, and schedule the meeting at the same time?

Should he ask for the bank to follow up with us with their findings, including results of any contact with FinCEN?

**b8**

Case Manager

**b8**

Office: **b8**

Mobile: **b6,b8**

**From:** **b8**

**Sent:** Tuesday, October 04, 2022 3:00 PM

**To:** **b8**

**Subject:** RE: **b4,b8** Exam

Here are the talking points. We want to bring the issue to their attention and put it on them to discuss with **b4,b8** and FinCEN for a determination. We can chat before you have your exit meeting, but go ahead and schedule it.

**b8**

**From:** **b8**

**Sent:** Tuesday, October 04, 2022 1:41 PM

**To:** **b8**

**Cc:** **b8**

**Subject:** **b4,b8** Exam

Hi **b8**

I spoke with **b8** and she is going to send some revised talking points for **b4,b8** and allow the

exit meeting to be scheduled as soon as we discuss them. She will send the as soon as she can.

**b8**

Case Manager

**b8**

Office:

**b8**

Mobile:

**b6,b8**



EXHIBIT E

Talking Points for **b4,b8** MSB Discussion

- The bank's response to our initial questions notes that **b4,b8** believes that the **b4,b8** program fits the requirements of the FinCEN Prepaid Closed Loop Rule of 2011 and that **b4,b8** does not need to be registered as a MSB since operators of prepaid programs are exempt from the definition of money transmitters.
- However, the March 18, 2013 FinCEN Guidance titled *Application of FinCEN's Regulations to Persons Administering, Exchanging, or Using Virtual Currencies*, states that "a person's acceptance and/or transmission of convertible virtual currency cannot be characterized as providing or selling prepaid access because prepaid access is limited to real currencies."
- Based upon the 2013 FinCEN Guidance, it appears that **b4,b8** needs to register with FinCEN as a MSB unless additional information can be provided to support otherwise. Was the bank aware of this guidance? ~~If so, do you have any~~ additional information to support your determination? If not, the bank **b4,b8** should consult with FinCEN for a determination.



**b4,b8**

**From:** Muraywid, Sumaya A.  
**To:** [b8] [b8]  
**Cc:** [b8] [b8] [b8] Collado, Larisa M.; Macias, Sandra  
**Subject:** RE: [b4,b8] [b4,b8]  
**Date:** Thursday, January 12, 2023 4:50:41 PM  
**Attachments:** Response to Crypto Related Activity Notification [b4,b8] clean.docx  
Response to Crypto Related Activity Notification [b4,b8].docx

All – Rae-Ann and Chris have approved the letters. I’m sharing the clean versions we sent up for review. [b8] and I worked on some edits to add the State on the [b4,b8] letter and to address what I raised in the prior chain regarding [b4,b8]. The only additional change is to the [b4,b8] letter – related to the state law citation – flagged in a comment box. Thanks.

**From:** [b8]  
**Sent:** Friday, January 6, 2023 2:56 PM  
**To:** Muraywid, Sumaya A. <SMuraywid@FDIC.gov>, [b8]  
**Cc:** [b8] [b8]  
[b8] [b8] Collado, Larisa M. <LCollado@FDIC.gov>;  
[b8] Macias, Sandra <SMacias@FDIC.gov>  
**Subject:** RE: [b4,b8] [b4,b8]

I’m not sure it is necessary to include that information in the letter.

[b8]

**From:** Muraywid, Sumaya A. <SMuraywid@FDIC.gov>  
**Sent:** Friday, January 06, 2023 2:48 PM  
**To:** [b8] [b8]  
**Cc:** [b8] [b8]  
[b8] [b8] Collado, Larisa M. <LCollado@FDIC.gov>;  
[b8] Macias, Sandra <SMacias@FDIC.gov>  
**Subject:** RE: [b4,b8] [b4,b8]

Ok, thank you, [b8] I may suggest some language reflecting that background. We’ll circle back. Thanks.

**From:** [b8]  
**Sent:** Friday, January 6, 2023 2:33 PM  
**To:** Muraywid, Sumaya A. <SMuraywid@FDIC.gov>, [b8]  
**Cc:** [b8] [b8]  
[b8] [b8] Collado, Larisa M. <LCollado@FDIC.gov>;  
[b8] Macias, Sandra <SMacias@FDIC.gov>  
**Subject:** RE: [b4,b8] [b4,b8]

Hi,

[b4,b8] actually called the Field Officer Supervisor and I participated on a call in November 2021, well before the guidance came out.

**b8**

Case Manager

**b8**

Office: **b8**

Mobile: **b6,b8**

**From:** Muraywid, Sumaya A. <SMuraywid@FDIC.gov>

**Sent:** Friday, January 06, 2023 2:31 PM

**To:** **b8**

**b8**

**Cc:** **b8** **b8** **b8**

Collado, Larisa M. <LCollado@FDIC.gov>; **b8** Macias, Sandra <SMacias@FDIC.gov>

**Subject: RE:** **b4,b8** **b4,b8**

Thank you, **b8** For **b4,b8** would it be correct to say that we identified/became aware of this activity through the 7/5/22 S&S exam process? Thanks.

**From:** **b8**

**Sent:** Friday, January 6, 2023 12:51 PM

**To:** Muraywid, Sumaya A. <SMuraywid@FDIC.gov>; **b8**

**Cc:** **b8** **b8** **b8**

**b8** **b8** **b8**

Collado, Larisa M. <LCollado@FDIC.gov>

**Subject:** **b4,b8** **b4,b8**

Sumaya and **b8**

We have used the template to draft the attached letters. These have been reviewed by the RMS and DCP regional management and regional legal staff. Please let us know if they are ok to send to the banks. Please reply to all as I will be out of the office next week.

Thanks.

**b8**

**From:** Muraywid, Sumaya A. <SMuraywid@FDIC.gov>

**Sent:** Wednesday, December 21, 2022 1:12 PM

**To:** **b8** **b8**

**b8**

**Cc:** **b8** Collado, Larisa M. <LCollado@FDIC.gov>; **b8**

**b8** **b8** Topping, Catherine

<CTopping@FDIC.gov>; Calkins, Mary <macalkins@fdic.gov>; Gaertner, Lisa A. <L Gaertner@FDIC.gov>;

Macias, Sandra <SMacias@FDIC.gov>; **b8**

**Subject:** **b4,b8** **b4,b8**

**b8** thank you for the update. Since they no longer hold the funds, can the case managers update the "Activity Status" to "Ceased" in the tracking system? I think we should also consider sending the banks a letter acknowledging the status change and asking them to let us know if things change again. See example letter attached. Thanks.

**From:** [b8]  
**Sent:** Tuesday, December 20, 2022 7:42 PM  
**To:** Muraywid, Sumaya A. <SMuraywid@FDIC.gov>; [b8] [b8]  
[b8]  
**Cc:** [b8]; Collado, Larisa M. <LCollado@FDIC.gov>; [b8]  
[b8] [b8]; Topping, Catherine <CTopping@FDIC.gov>; Calkins, Mary <macalkins@fdic.gov>; Gaertner, Lisa A. <L Gaertner@FDIC.gov>; Macias, Sandra <SMacias@FDIC.gov>  
**Subject:** [b4,b8] [b4,b8]

Sumaya and [b8]

We asked the following questions to [b4,b8] and [b4,b8] Bank regarding [b4,b8]. Below are the combined answers.

1. What is the wind down timeline for the [b4,b8]

[b4,b8] reported that they were notified on 11/23/22 by representatives from [b4,b8] that all payments out of the business and individual wallets was complete and there would be no new loading of wallets or payments form wallets. The [b4,b8] version of the app is closed.

[b4,b8] reported that the wind down has been completed.

2. What is the bank's role in the wind down and return of customer funds?

Neither [b4,b8] Bank nor [b4,b8] Bank played a role in return of token holders' funds. The responsibility and execution was with [b4,b8]. The banks' only role was ACH debits to [b4,b8] who reimbursed the customers.

3. Will the bank's relationship/agreement related to [b4,b8] stay in place in anticipation of the bank continuing to play a role in the app's next iteration?

[b4,b8] reports that at this time the relationship will remain in place in anticipation of the app's next iteration but updates to the agreement and related risk assessments would be completed to reflect changes in the new iteration. [b4,b8] reports that this will be re-evaluated when [b4,b8] is ready to move forward.

We expect we will need to draft letters to each institution but haven't had a chance to do so yet.

[b8]

**From:** Muraywid, Sumaya A. <SMuraywid@FDIC.gov>  
**Sent:** Wednesday, December 07, 2022 12:01 PM  
**To:** [b8] [b8]  
[b8]  
**Cc:** [b8]; Collado, Larisa M. <LCollado@FDIC.gov>; [b8]  
[b8] [b8]; Topping, Catherine <CTopping@FDIC.gov>; Calkins, Mary <macalkins@fdic.gov>; Gaertner, Lisa A. <L Gaertner@FDIC.gov>;



Macias, Sandra <SMacias@FDIC.gov>

**Subject:** [redacted] **b4,b8** [redacted] **b4,b8**

Hi all – just following up on this. Any updates? Thanks

**From:** Muraywid, Sumaya A.

**Sent:** Friday, November 18, 2022 4:43 PM

**To:** [redacted] **b8** [redacted] **b8**

[redacted] **b8**

**Cc:** [redacted] **b8** Collado, Larisa M. <LCollado@FDIC.gov>; Ahrenholtz, Jason P. <jahrenholtz@FDIC.gov> [redacted] **b8** [redacted] **b8** [redacted] **b8** Topping, Catherine <CTopping@FDIC.gov>; Calkins, Mary <macalkins@fdic.gov>; Gaertner, Lisa A. <Lgaertner@FDIC.gov>

**Subject:** [redacted] **b4,b8** [redacted] **b4,b8**

Thanks, [redacted] **b8** and thanks, [redacted] **b8**

**From:** [redacted] **b8**

**Sent:** Friday, November 18, 2022 4:24 PM

**To:** [redacted] **b8**; Muraywid, Sumaya A. <SMuraywid@FDIC.gov>; [redacted] **b8**

[redacted] **b8**

**Cc:** [redacted] **b8**; Collado, Larisa M. <LCollado@FDIC.gov>; Ahrenholtz, Jason P. <jahrenholtz@FDIC.gov>; [redacted] **b8** [redacted] **b8** [redacted] **b8** Topping, Catherine <CTopping@FDIC.gov>; Calkins, Mary <macalkins@fdic.gov>; Gaertner, Lisa A. <Lgaertner@FDIC.gov>

**Subject:** [redacted] **b4,b8** [redacted] **b4,b8**

Yes, we can ask our EIC of our compliance exam if she can obtain any answers to any questions.

I am going to be off of next week ([redacted] **b6**) [redacted] **b6** – but [redacted] **b8** (our assigned RE) can coordinate with [redacted] **b8** and/or invite [redacted] **b8** to a call to discuss.

Thank you and hope you all have a nice Thanksgiving.

[redacted] **b8**

Assistant Regional Director – Compliance and CRA

[redacted] **b8**

[redacted] **b8**

**From:** [redacted] **b8**

**Sent:** Friday, November 18, 2022 4:19 PM

**To:** Muraywid, Sumaya A. <SMuraywid@FDIC.gov> [b8] [b8]  
[b8]  
**Cc:** [b8] Collado, Larisa M. <LCollado@FDIC.gov>; Ahrenholtz, Jason P. <jahrenholtz@FDIC.gov>; [b8] [b8] [b8]; Topping, Catherine <CTopping@FDIC.gov>; Calkins, Mary <macalkins@fdic.gov>; Gaertner, Lisa A. <L.Gaertner@FDIC.gov>  
**Subject:** RE: [b4,b8] [b4,b8]

Hi Sumaya,  
Yes, we would plan to follow up with the banks and ask the types of questions you noted below. I will touch base with [b8] and our regional group on this on Monday. If anyone else has specific questions, let me know. We could all speculate on why they decided to end it this week, but we could certainly ask!

Have a nice weekend.

[b8]

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**From:** Muraywid, Sumaya A. <SMuraywid@FDIC.gov>  
**Sent:** Friday, November 18, 2022 4:04 PM  
**To:** [b8] [b8]  
[b8]  
**Cc:** [b8] Collado, Larisa M. <LCollado@FDIC.gov>; Ahrenholtz, Jason P. <jahrenholtz@FDIC.gov>; [b8] [b8] [b8]; Topping, Catherine <CTopping@FDIC.gov>; Calkins, Mary <macalkins@fdic.gov>; Gaertner, Lisa A. <L.Gaertner@FDIC.gov>  
**Subject:** RE: [b4,b8] [b4,b8]

Following up, we thought it would be worthwhile to check in with the banks on a few things like:

- The winddown timeline
- The bank's role in winddown and return of customer funds
- Whether the bank's relationship/agreement related to [b4,b8] will stay in place in anticipation of the bank continuing to play a role in the "app's next iteration"

Thoughts? Additions?

Thanks!

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**From:** [b8]  
**Sent:** Thursday, November 17, 2022 2:05 PM  
**To:** Muraywid, Sumaya A. <SMuraywid@FDIC.gov> [b8] [b8]  
[b8] [b8] [b8]  
**Cc:** [b8] Collado, Larisa M. <LCollado@FDIC.gov>; Ahrenholtz, Jason P. <jahrenholtz@FDIC.gov>; [b8] Topping, Catherine <CTopping@FDIC.gov>; Calkins, Mary <macalkins@fdic.gov>; Gaertner, Lisa A. <L.Gaertner@FDIC.gov>  
**Subject:** [b4,b8] [b4,b8]

Thank you [b8] for this timely notification.

[b8]

**From:** Muraywid, Sumaya A. <SMuraywid@FDIC.gov>

**Sent:** Thursday, November 17, 2022 1:39 PM

**To:** [b8] [b8] [b8]  
[b8] [b8]

**Cc:** [b8] Collado, Larisa M. <LCollado@FDIC.gov>; Ahrenholtz, Jason P. <jahrenholtz@FDIC.gov>; [b8] Topping, Catherine <CTopping@FDIC.gov>; Calkins, Mary <macalkins@fdic.gov>; Gaertner, Lisa A. <L Gaertner@FDIC.gov>

**Subject:** [b4,b8] [b8]

See update below. thanks to [b8] for sending.

**From:** [b8]

**Sent:** Thursday, November 17, 2022 12:59 PM

**To:** Boyd, Annmarie H. <ABoyd@FDIC.gov>; Topping, Catherine <CTopping@FDIC.gov> [b8]  
[b8]

**Cc:** Muraywid, Sumaya A. <SMuraywid@FDIC.gov>; [b8]

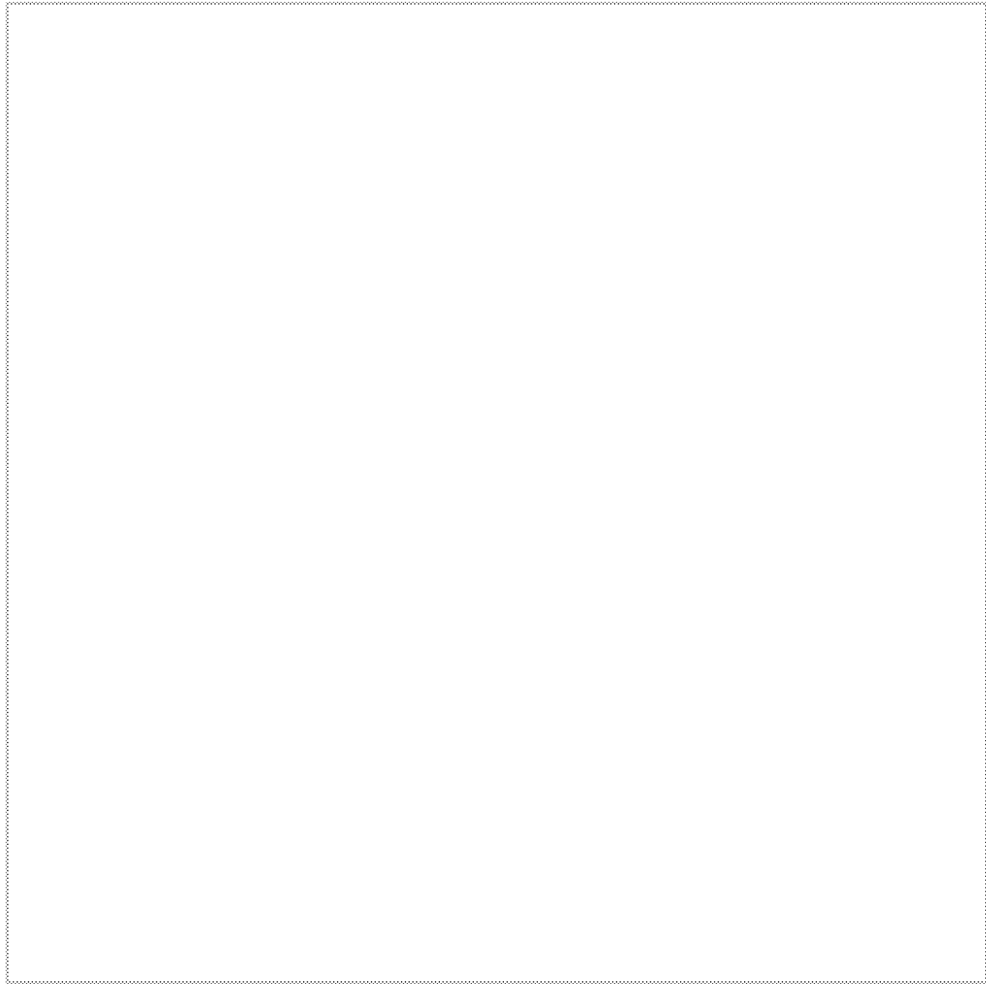
**Subject:** [b4,b8] [b4,b8]

[b4,b8] is discontinuing current [b4,b8] [b4,b8] reimbursing all users with a balance. Hopefully this goes smoothly with respect to [b4,b8] Bank and [b4,b8] Bank as partner community banks for the [b4,b8] program.

[b4,b8] program continues unaffected.

[b8]  
Counsel, Legal Division  
[b8]  
Mobile: [b6,b8]  
Office: [b8]

----- Forwarded message -----  
**From:** [b4,b8]  
**Date:** Thu, Nov 17, 2022 at 12:05 PM  
**Subject:** [b4,b8]  
**To:** [b6,b8]



**b4, b8**

**b4, b8**