

LIVESTREAM

CRYPTO DOESN'T HAVE TO BE CRYPTIC

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McGONIGLE



SPEAKERS



Stephen T. Gannon
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AGENDA

- ✓ Introductions
- ✓ DeFi
- ✓ Crypto Products
- ✓ Managing Volatility With Stablecoins
- ✓ Digital Assets (Crypto) Risk Framework
- ✓ Key Take-Aways

INTRODUCTION



- ✓ How will this new asset class compete and disrupt
- ✓ What are “bank adjacent” products and services related to digital assets
- ✓ Customers demand “the best of crypto” in terms of speed and costs (*faster, less expensive, reliable and safe*)
- ✓ Banks cannot afford to stand still
- ✓ Waiting for the government to regulate crypto will not be fast enough

DeFi

Decentralized Finance (DeFi) is a “**Trustless**” peer to peer environment, eliminating the need for intermediaries

Trust is not needed because “Code is Law”

Smart Contracts create a different kind of market:

- ✓ Faster
- ✓ Less expensive
- ✓ Broader access
- ✓ Immutable - significant operational risks
- ✓ Evolving - “solutions oriented”
- ✓ Open source (developer friendly)



Source: <https://www.gemini.com/cryptopedia>

DeFi CONTINUED



Allows for newer and potentially stronger elements of trust



BANK ADJACENT PRODUCTS



Payments

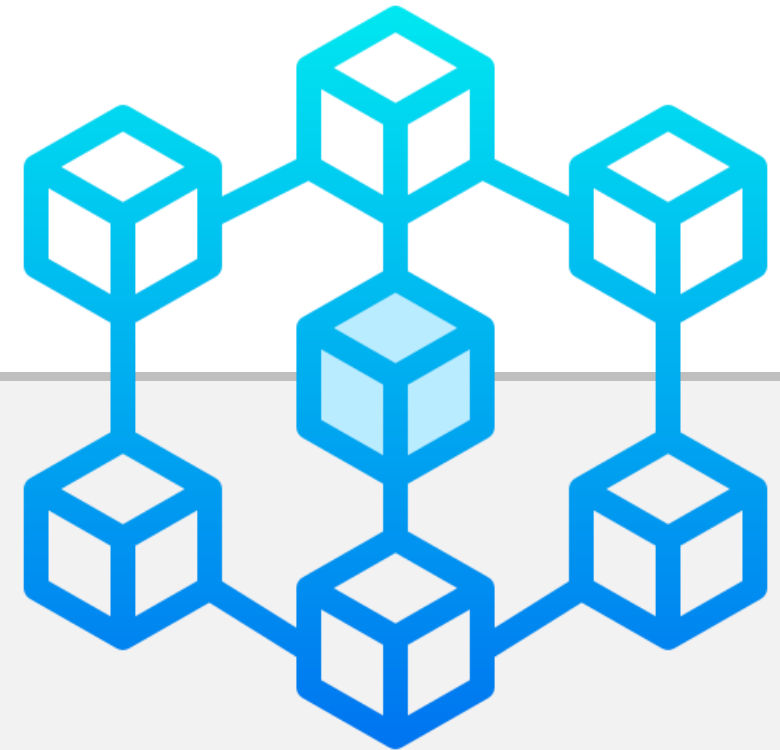
- Use of “Layer 2” on Bitcoin or Ethereum blockchains
- Huge number of test cases
- API connectivity between bank accounts and blockchain

- **Strengths**

- Extremely fast*
- Close to immediate settlement*
- Very low costs*

- **Weaknesses**

- Cannot be reversed*



BANK ADJACENT PRODUCTS

Lending/Credit

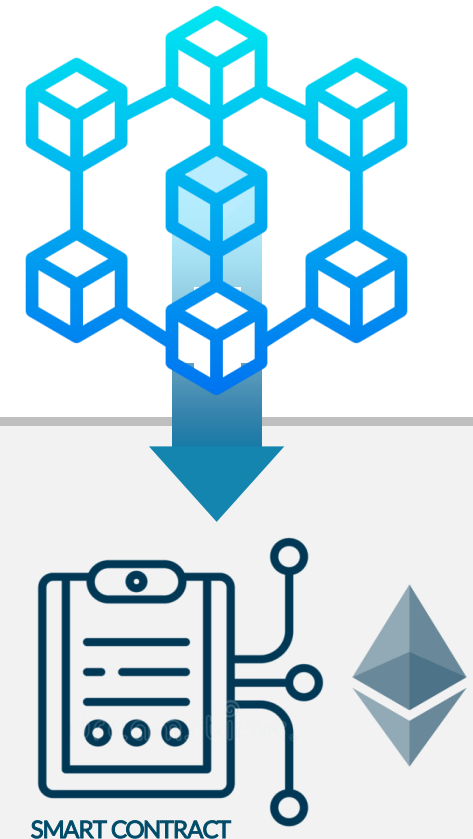
- Cash loans can be made against over-collateralized digital assets
Example: SALT Lending; Unchained Capital
- Loans are governed by smart contracts, not loan administrators

• Strengths

- Low rates
- Low (or no) fees
- Ease of administration

• Weaknesses

- No flexibility - with smart contracts, “code is law”



BANK ADJACENT PRODUCTS



Other lending use cases

- **Lines of credit** also can be accessed on blockchains (e.g., Cred)
- **Mortgages** (Liquid Mortgage; Milo)
- **Home equity** (Figure)
- Use of smart contracts to connect investors and business owners (Tavalo)
- **Credit identities and scores**
 - Use of social metrics that verify and approved loans (WeTrustRosca)
- **NFTs as collateral** (101 Crypto Punks)
- **Significant use case to reducing fraud** (Chainalysis; Elliptical; TRM; predictive math models)

BANK ADJACENT PRODUCTS



Custody

- Hot and cold wallets
- Must understand the technology
- Use of sub-custodians
- T+O Settlement

Benefits

- ☑ *Visibility to all users from public ledger*
- ☑ *Improved trade accuracy*
- ☑ *Shorter processing time*
- ☑ *Reduced transaction fees*

Cards

- On ramp/off ramp for fiat and crypto
- Visa and MasterCard already rolling out

BANK ADJACENT PRODUCTS



Deposits

- Significantly higher rates, e.g., Gemini Earn
- Yield farming-- the use of “idle crypto”
- Liquidity pools
- Liquidity providers
- Role of Automated Market Makers (“AMMs”)
- Staking – acting as a “node” for Proof-of-Stake protocols

Asset Management

- Driving broader adoption of crypto products, e.g., Galaxy, Schwab, Morgan Stanley

Inflation Hedges

- BTC limited supply
- Depends on volatility

MANAGING VOLATILITY WITH STABLECOINS



What are Stablecoins and why are they important?

Types of Stablecoins

- Fully reserved, 1:1 with fiat
- Potential impact on fractional reserve banking
- Reserved with fiat and other instruments
- Algorithmic backing (no fiat or similar reserves)

Reasons for Rapid Growth

- Removes Volatility
- Very Fast Payments (Cross- Borders)
- Cost efficient (Fractions of a cent)

Examples:

- USDC (Circle)
- GUSD (Gemini)
- USDP (Paxos)
- UST (Terra)
- BUSD (Binance)
- DAI (Dai)
- CBDCs

Potential impacts on banking system— such as “flights to safety” (runs) during stress event

THROUGH WHAT LENS WILL REGULATORS VIEW CRYPTO PRODUCTS & SERVICES?



- For OCC banks, regulators will be engaged due to the current requirements for a written non-objection
- Examiners and district officers can use tools and processes with which they are familiar
- Over time, they have come to trust those processes as accurate and comprehensive
- The crypto world lends itself to the use of those processes

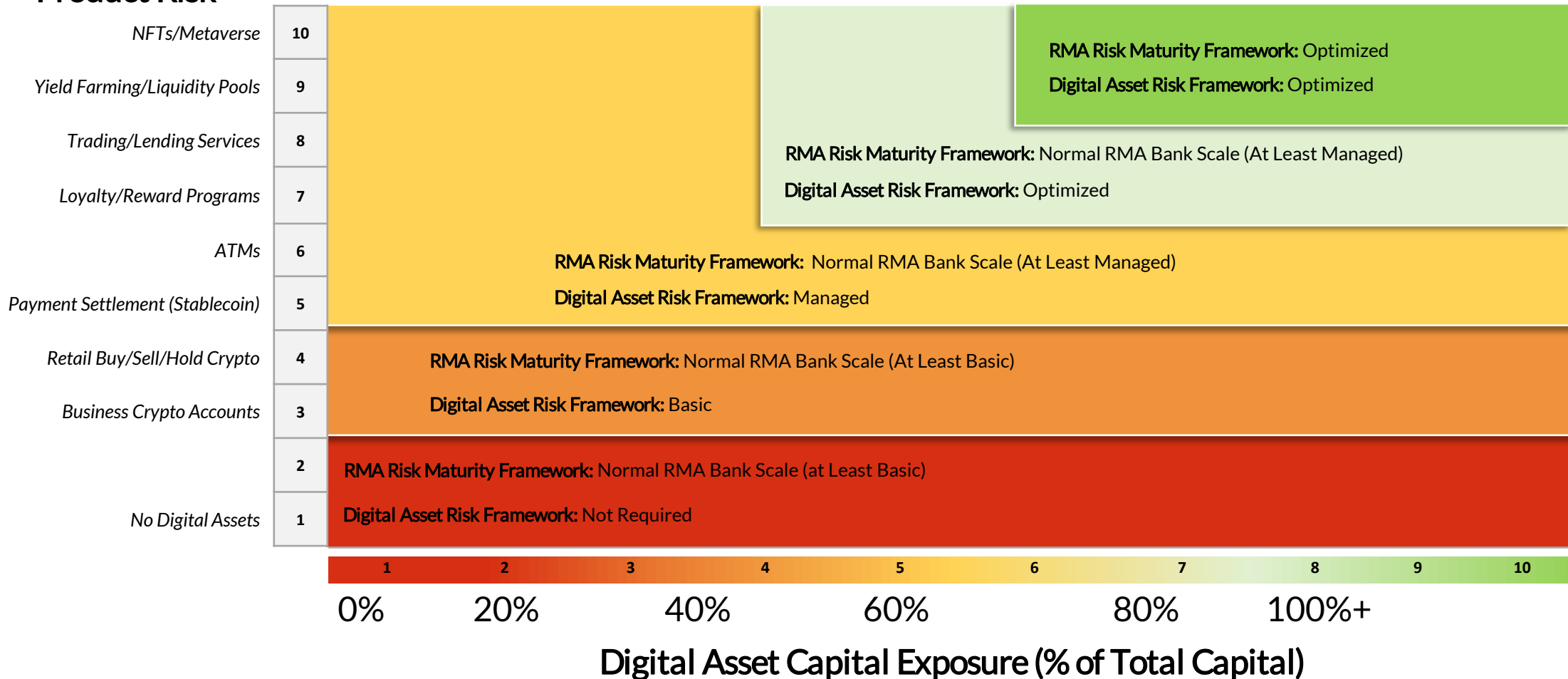
Two frameworks will be required:

1. Bank products and services offered through the bank
2. Assessments of third-parties providing crypto products and service to the bank

CRYPTO RISK MATURITY MATRIX



Product Risk



SRA'S CRYPTO RISK MATURITY FRAMEWORK



HOW TO GET STARTED WITH CRYPTO-BASED PRODUCTS



Get Board alignment on initiatives through the Strategic Plan



Establish a **Digital Asset Policy** & related procedures



Create a **Digital Asset (Crypto) Risk Framework** for the Bank



Assess risk infrastructure maturity using a framework (I.E. RMA's Risk Maturity Framework) to identify strengths & weaknesses



Assess organizational readiness in terms of DeFi, Distributed Ledger Technology (Blockchain), & Cybersecurity expertise



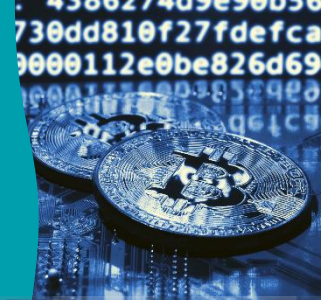
Develop an action plan to enhance risk infrastructure & organizational resilience over time



Perform a New Product Risk Assessment on new digital assets & have it approved by the Board



Begin discussions with your **OCC Supervisor** leading to Non-objection (OCC IL 1179) to engage in crypto activities



Wrap-up and Questions

UPCOMING CRYPTO WEBINAR



Crypto Livestream #3

9 Key Pillars of Building a Crypto Risk Framework

April 13th, 2022 @ 2 PM EST

Save the Date

LIVESTREAM

Thank You!

Please fill out the survey

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MICHAEL GLOTZ



Michael Glotz
CEO
Strategic Risk Associates

Mr. Glotz is the Chief Executive Officer and Co-Founder of Strategic Risk Associates (SRA) and is the firms' practice leader for risk governance, capital management and crypto management activities. He has led numerous risk management and capital planning engagement efforts for national, regional and community organizations. Mr. Glotz served as Senior Vice President and Strategic Financial Officer for Crestar Bank and later SunTrust Bank through acquisition. During his tenure with SunTrust Bank, he held various senior financial positions including Strategic Financial Officer and head of Strategic Cost Management.

Immediately before SRA's founding, Mr. Glotz was a Managing Vice President with Capital One Financial Corporation. Mr. Glotz held senior positions with Capital One including Managing Vice President of Corporate Audit and Credit Review Services for Capital One Bank (\$80 Billion in Assets at the time), which included the oversight and development of over 100 audit and risk professionals. Mr. Glotz also supported the implementation of Enterprise Risk Management and lead independent assessments of bank acquisition and integration activities for large-scale mergers.

Mr. Glotz is Risk-Reward Co-Chair of the American Association of Bank Directors and is a faculty member of the Institute of Bank Director Education. Mr. Glotz was a Faculty Professor of the Virginia Bankers School at the University of Virginia where he taught Risk Governance and ERM. He has delivered Bank Director training for many State Banking Association and individually for Boards. Mr. Glotz received a BBA Degree in Business with the University of Wisconsin, an MBA with the University of Richmond and completed the Executive Development Program at Wharton, University of Pennsylvania. He is a Certified Risk Professional.

STEPHEN T. GANNON



**Stephen T.
Gannon**
Shareholder
McGonigle, P.C.

Stephen T. Gannon is a financial services industry leader who has previously served as a senior legal executive at Citizens Financial Bank, Capital One Financial Corporation and Wachovia Securities. Prior to joining McGonigle, P.C., Mr. Gannon was most recently Executive Vice President, General Counsel and Chief Legal Officer at Citizens Financial Group, the nation's 12th largest retail and commercial bank, where he served on the Executive Committee managed and directed all legal, corporate governance, corporate transactions, government relations, regulatory relations and litigation functions for the company. He has spent the last two decades as a counselor, advisor and manager with respect to the highest levels of strategic decision making for several of the country's largest financial institutions.

Mr. Gannon also has significant experience in leading teams charged with designing and overseeing frameworks and processes to ensure that products, and processes and structures are fully compliant with all applicable laws and regulations to fit within the appropriate strategic goals. Mr. Gannon also has advocated and managed advocacy before the Federal Reserve Board, the OCC, the FDIC, the CFPB and the SEC, where he served as a Branch Chief in the Division of Enforcement. He also has deep expertise in banking and broker dealer regulation, including in connection with numerous public policy issues regarding bank regulatory reform.

In addition to serving on McGonigle, P.C.'s Securities Regulation Practice and Fintech & Blockchain practices, Mr. Gannon will advise the banking industry on regulatory and strategic matters, ranging from public policy and corporate governance to litigation, compliance and administrative actions. He will also focus on helping the industry adapt to and stay on top of the burgeoning fintech space.

Mr. Gannon speaks and writes frequently on topics related to the financial services industry, including the role of FinTechs, digital assets, and cryptocurrency and their evolving impact on the industry.

MATTHEW B. COMSTOCK



**Matthew B.
Comstock**
Shareholder
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Mr. Comstock, a former lawyer at the U.S. Securities and Exchange Commission, has a diverse practice covering the legal and regulatory aspects of securities trading and markets, including the application of securities regulation to digital assets issued on the blockchain and to technological developments in the securities industry more broadly. He regularly advises trading platforms, broker-dealers, clearing agencies, hedge funds and other clients on a variety of compliance, regulatory and transactional matters, and interfaces with the staff of the SEC and other regulatory bodies on behalf of clients. His areas of expertise include creation of trading platforms, custody and trading of alternative investments/digital assets, broker-dealer financial responsibility, broker-dealer liquidations, securities credit regulation, compliance with self-regulatory organization rules, short selling, regulations governing market manipulation, securities lending and securities repurchase transactions, soft dollars, prime brokerage, and market structure.

Mr. Comstock's recent significant matters include assisting in the creation of a trading platform for digital assets, establishing cryptocurrency trading desks, assisting a broker-dealer with a FINRA examination and investigation regarding complex financial responsibility issues, and representing a leading global derivatives marketplace with respect to regulatory matters before the SEC's Division of Trading and Markets.

A member of McGonigle, P.C.'s FinTech and Blockchain Practice, Mr. Comstock is a regular speaker at financial industry and blockchain events, and he is one of five authors of McGonigle, P.C.'s proprietary report, Cryptocurrency Regulatory Developments.

Mr. Comstock was an attorney in the SEC's Division of Trading and Markets, where he held the positions of Branch Chief, Special Counsel and Staff Attorney in the Office of Financial Responsibility. He had responsibility for a variety of matters relating to broker-dealer net capital requirements, customer protection, broker-dealer books and records requirements, margin and broker-dealer liquidations.

HARRIS KAY



Harris Kay
Shareholder
McGonigle, P.C.

Harris Kay is the Office Managing Partner of the firm's Chicago office. He represents financial services firms and individuals in a wide range of registration, compliance, regulatory and litigation matters. Mr. Kay has represented financial services industry clients for over twenty years. Throughout that time, he has assisted members of the securities and derivatives industries in navigating the complex statutory and regulatory framework in which these businesses operate.

In connection with his commodities, futures and derivatives practice, he assists derivatives exchanges, futures commissions merchants, introducing brokers, commodity pool operators and commodity trading advisors in a variety of registration, regulatory and compliance matters. Harris's proprietary trading firm clients rely upon him for advice and counsel regarding regulatory and exchange rule compliance and myriad other day-to-day formation and operational issues. And, when necessary, Harris represents futures and derivatives industry clients in regulatory inquiries, investigations and enforcement proceedings before the CFTC, NFA and various exchanges.

Mr. Kay's securities practice focuses upon representing broker-dealers, investment advisers, trading firms and fund clients in connection with regulatory and compliance matters. He provides advice regarding numerous business and trading-related issues. He has handled numerous complex regulatory investigations and enforcement matters regarding, among other matters, issuance of securities, fund and issuer disclosure matters, broker-dealer sales practices, registration issues, and other matters, before SEC, FINRA and exchanges.

Mr. Kay previously served as an adjunct professor at the University of Richmond, lecturing on numerous financial services industry-related topics. He has published two law review articles, and has written on numerous litigation and regulatory issues related to the industry. He is a regular participant and moderator on panel discussions at various industry events.