National Bank Examiners
[redacted]

May 30, 2023

[redacted]

Subject: Request for Supervisory Non-Objection Pursuant to Interpretive Letter No. 1179-
[redacted]

Dear [redacted]:

This letter responds to correspondence received by the Office of the Comptroller of the Currency (OCC) on February 28, 2023, from [redacted] requesting the OCC's supervisory non-objection pursuant to OCC Interpretive Letter 1179, dated November 18, 2021. The Bank requested Examiner-in-Charge (EIC) non-objection for a series of $1 USD test transactions in connection with two [redacted] initiatives, [redacted] that use tokenized deposits, distributed ledger technology (DLT), and smart contracts to facilitate payments transactions.

Key Facts and Representations

The supervisory conclusions in this letter are based on the following representations made by [redacted] to the supervisory office.

- [redacted] is the [redacted] initiative to develop a DLT-based solution to provide clients with 24/7 instant availability of funds and enable intercompany payments on a cross-border basis using tokenized deposits issued by [redacted] This solution intends to optimize liquidity usage across [redacted] branches by enabling shared liquidity while streamlining the processing of intercompany/cross-border payments.
- [redacted] is the [redacted] initiative to develop a DLT-based solution which relies on smart contracts and tokenized deposits to enable a corporate customer to pay its service provider securely and automatically. [redacted] was developed with the intention of providing a replacement of the [redacted], an existing [redacted] product, with a natively digital solution that is more secure and efficient, a result of the smart contract DLT technology.
- Each transaction will be limited in the amount to $1 USD. [redacted] will conduct 1,000 or fewer $1 USD test transactions for each project.
- All transactions involving DLT will occur through a private permissioned ledger.

[redacted]

- [redacted] owns and controls all the nodes underlying the private permissioned ledger.
- [redacted] will maintain the ability to modify, correct, cancel, or unwind all test transactions.
- [redacted] will be the sole issuer of the tokenized deposits used for this test.
- In all test transactions, the [redacted] issued tokens will not leave [redacted] managed systems and clients will not have the ability to transfer the tokens to external wallets or external networks.
- The test transactions will only involve existing customers.

Supervisory Office Non-Objection Decision

As set forth in Interpretive Letter 1179,[1] in deciding whether to grant supervisory non-objection, the supervisory office evaluated the adequacy of the bank's risk measurement and management information systems and controls to enable the bank to engage in the proposed activities on a safe and sound basis. [redacted] demonstrated that it has the following controls in place to participate in the network in a safe and sound manner:

- The testing phase consists of low value transactions, with a limited number of clients, which limits the potential loss to the bank or the clients.
- Tests will be carried out on a private and permissioned DLT with no connectivity to public DLT networks.
- Management will have full control of the test transactions with ability to modify, correct, or unwind any transactions.

The EIC has no supervisory objection to [redacted]s request to conduct the test transactions for [redacted] based on the facts and circumstances detailed in the bank's request. The OCC reserves the right to withdraw this non-objection at any time should the OCC determine there has been a material change in the facts and circumstances represented in the request or that applicable risk management and measurement systems become inadequate relative to the risks of the proposed activity. This supervisory non-objection is limited specifically to the proposed series of $1 USD test transactions for each project. Should [redacted] decide to expand or change the activities, [redacted] should submit another written request for supervisory non-objection, including accompanying due diligence documentation.

---

[1] The proposed activity entails the use of a distributed ledger to conduct payment activities. The activity is thus within the scope of OCC Interpretive Letter 1174 (January 4, 2021). In Interpretive Letter 1179, the OCC stated that banks that seek to engage in activities within the scope of Interpretive Letter 1174 should request and receive a supervisory non-objection before commencing the activities.

[redacted]

Sincerely,

[redacted]

cc [redacted])

[redacted]