Office of the Comptroller of the Currency

National Bank Examiners
[redacted]

November 17, 2023

[redacted]

Subject: Request for Supervisory Non-Objection for Operation and Use of the [redacted] on the [redacted] Platform

Dear [redacted]:

This letter is in response to your request dated May 4, 2023, on behalf of [redacted] for supervisory non-objection pursuant to OCC Interpretive Letter #1179, dated November 18, 2021 (IL 1179) for the use of the [redacted] application on the [redacted] ([redacted] platform, a private, permissioned distributed ledger technology (DLT), to facilitate, process, and record the transfer of ownership over, and the lifecycle management of, debt securities.[1]

Key Facts and Representations

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

- [redacted] will use [redacted] to facilitate (i) delivery versus payment transfer of funds and transfer of beneficial ownership of debt securities, (ii) servicing and redemption of debt securities and (iii) post-trade events following the purchase or sale of debt securities (e.g., affirmation, allocation, authorization, settlement and settlement confirmation).
- [redacted] will function as the technology platform providing the blockchain infrastructure and services required to support the [redacted] application.
- [redacted] a [redacted] will serve as the application provider and act as the sole initial purchaser of the debt securities, broker-dealer for all secondary transactions and transfer agent for the debt securities. [redacted] will also maintain the tax register.

[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, dated January 4, 2021, and is thus also within the scope of IL 1179.

[redacted]

- [redacted] will not act as the initial purchaser or underwriter for the debt securities.
- [redacted] will hold the global notes as the depositary.
- [redacted] will serve as securities intermediary pursuant to which [redacted] will be the registered owner of issuers' global notes and use the [redacted] blockchain ledger for recording beneficial interests in the global notes held by participating institutions.
- [redacted] will not be a beneficial owner of the global notes.
- [redacted] will be the only custodian onboarded to [redacted] and thus all investors in securities settled through [redacted] will be custody clients of [redacted]
- The bank's use of the [redacted] application would not materially change the current processes of debt security issuance, custody, servicing, and trading.
- The bank has appropriately considered and implemented monitoring and reporting of relevant activities between the bank and its affiliates using its existing risk governance processes.

Supervisory Office Non-Objection Decision

As set forth in IL 1179, 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 operate the [redacted] application on the [redacted] network in a safe and sound manner:

- [redacted] has no interaction with, or reliance on, public and permissionless blockchain networks or associated crypto-assets.
- All nodes and related blockchain infrastructure have been internally developed and are owned and operated solely by [redacted]
- The [redacted] ledger can be investigated, reconciled, and resolved to the same extent as transactions recorded on other internal systems used by [redacted] including making amendments, cancellations, and corrections.
- Clients connect to [redacted] using a secure interface and are authenticated using the same processes employed across the firm for non-blockchain services.
- Private keys are managed internally by [redacted] using existing security standards and control requirements.
- Any customers for whom [redacted] opens accounts on [redacted] will be subject to the bank's established onboarding processes including related KYC procedures.
- Management has established appropriate firmwide governance and reporting processes for managing compliance risks associated with this activity.
- Appropriate technology and operational risk considerations have been completed using the firm's change management practices.

Based on the facts and representations detailed above and in the [redacted] request and the Supervisory Office evaluation of the controls noted above, the Supervisory Office does not object to [redacted] use of [redacted] for depositary, securities intermediary, and custodial activities. This non-objection does not address whether the proposed activity complies with federal securities laws. The bank must take the appropriate steps to ensure compliance with all applicable laws, including Regulation W and any relevant federal securities laws and regulations.

The OCC reserves the right to withdraw this non-objection at any time should the OCC determine that there has been a material change in the facts and circumstances represented in the request, including any changes in the roles or responsibilities of the bank or any affiliate of the bank, changes in how [redacted] uses [redacted] for [redacted] or if applicable risk management and measurement systems become inadequate relative to the risks of the proposed activity. Accordingly, [redacted] must provide the OCC with written notice prior to any planned material changes in the roles or responsibilities of the bank (or any affiliate of the bank), or for any other material changes in the facts and circumstances in the request dated May 4, 2023.

If you have any questions or comments, please feel free to contact me at [redacted]

Sincerely,

[redacted]

cc: [redacted]

[redacted]