Office of the Comptroller of the Currency

National Bank Examiners
[redacted]

November 1, 2023

[redacted]

Subject: **Request for Supervisory Non-Objection to Expand Use of the Existing [redacted] Application on the [redacted] Platform in Order to Facilitate a Broader Range of Repurchase Transactions**

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) to expand the use of the existing [redacted] Application on the [redacted] platform to facilitate a broader range of repurchase (repo) transactions ([redacted]).[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] has operated the [redacted] Application on the [redacted] platform to facilitate the execution and settlement of [redacted]
- [redacted] is a [redacted] owned and operated private permissioned distributed ledger platform that the bank operates to:
  - Process, record, and transfer traditional assets.
  - Facilitate funds transfers among deposit accounts held at [redacted] through the [redacted]

[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.
[2] [redacted].
[3] [redacted]

[redacted]

- [redacted] would use the same technology and operational processes as the existing [redacted] Application.
- [redacted] on the [redacted] Application is currently limited to:
  - Intraday financing only. Trades must settle and mature on the same day.
  - US Treasuries as eligible collateral.
  - [redacted] as repo buyer and [redacted] and a small number of external clients as repo sellers.
  - [redacted]) as triparty agent.
  - [redacted]
  - Master Repurchase Agreement (MRA) as the governing master agreement.
- [redacted] would add:
  - Overnight and term repo tenors.
  - All fixed-income securities as eligible collateral.[5]
  - [redacted]
  - [redacted]
  - [redacted]
  - Global Master Repurchase Agreement (GMRA) as a governing master agreement.
- [redacted] will be held to the same risk management standards as traditional repo.
- Legal entities that would be involved in [redacted] include: [redacted].

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] has represented that it has the following controls in place to expand its digital repo product in a safe and sound manner:

- New Business Initiative Approval and Product/Service Change Management policy and procedures which the bank followed to identify the risks and mitigating controls for the [redacted] Application and [redacted]

[5] Management has represented that eligible collateral would be the same as that eligible for regular way (business-as-usual) repo transactions.

[redacted]

- Risk and policy standards consistent with its traditional repo products.
- Onboarding processes and know your customer procedures for new accounts on the [redacted] Application.
- Integration with the bank's risk management tool, [redacted] to provide real-time visibility of all transactions and daily manual checks to reconcile [redacted] data to the [redacted] Application.
- Integration with the bank's credit risk database, [redacted] by end of 2024.
- The [redacted] application complies with all applicable laws and regulations.
- [redacted] specific controls include:
  - [redacted] security procedures require the establishment of a secure session through a valid application programming interface token and authentication of transactions through private keys.
  - No direct access to the distributed ledger (DLT) node by any of the participating institutions.
  - Collateral tokens are smart contracts and can only be deployed or upgraded by the [redacted] controlled nodes on the network.
  - Private keys are managed internally by [redacted]. [redacted] can prevent use of corrupted or stolen private keys and generate new private keys.
  - Smart contract code has been reviewed in accordance with internal cybersecurity control procedures and tested in user acceptance testing (UAT).
  - 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.
  - Ongoing monitoring through monthly [redacted] Forum and quarterly [redacted] Control Forum.

Based on the facts and representations detailed above and in the [redacted] request and the Supervisory Office review of the controls noted above, the Supervisory Office does not object to [redacted]'s request to expand the use of the existing [redacted] Application on the [redacted] platform to facilitate a broader range of repo transactions. Prior to facilitating overnight repos, the bank must complete the planned end-to-end testing of overnight repos described in documentation supporting the proposal and report the results to the Supervisory Office.

This Supervisory Office non-objection is limited to the activities detailed in [redacted]'s requests. Unless otherwise notified by the OCC, any additional activities involving the use of a private permissioned distributed ledger technology platform for [redacted], including material changes to the activities outlined in the non-objection request are subject to the IL 1179 process and would entail separate requests. 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.

[redacted]

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

Sincerely,

[redacted]

cc: [redacted]

[redacted]