

[Bank Letterhead]

Date: [Insert Date]

To: [Client Name/Board of Directors]

From: [Compliance/Risk Management Department]

Subject: ADVISORY: Risk Management Regarding Digital Assets and Cryptocurrency

Dear [Recipient Name],

This advisory letter serves to outline the inherent risks and regulatory expectations associated with digital assets, including cryptocurrencies, stablecoins, and related custody services within the banking sector.

1. Market and Liquidity Risk

Digital assets are subject to extreme price volatility. Financial institutions must recognize that market fluctuations can impact collateral valuations and the liquidity profiles of both the bank and its customers.

2. Regulatory and Compliance Risk

The regulatory landscape for digital assets is evolving. Institutions must ensure strict adherence to Anti-Money Laundering (AML) and Know Your Customer (KYC) protocols to mitigate the risk of financial crime, sanctions evasion, and terrorist financing.

3. Operational and Cybersecurity Risk

Digital assets rely on distributed ledger technology. Risks include private key mismanagement, hacking of digital wallets, and vulnerabilities in smart contracts. Robust technical safeguards and redundant security protocols are mandatory.

4. Custody and Fiduciary Responsibility

Engaging in the custody of digital assets requires a clear legal framework to ensure assets are segregated and protected in the event of insolvency or third-party platform failure.

5. Strategic and Reputation Risk

Involvement with high-risk digital asset entities may lead to reputational damage. The institution must perform comprehensive due diligence before establishing any banking relationships with crypto-native firms.

Conclusion

Before engaging in digital asset activities, the institution must conduct a formal risk assessment and obtain necessary regulatory non-objection. Please contact the Risk Management Department for further guidance on specific asset classes or proposed transactions.

Sincerely,

[Signature]

[Name]

[Title]

[Bank Name]