

Crypto assets - Safe custody service

Test cases

Participant	Participant's core business	What is in the sandbox	Testing status
Investec Bank Limited (Investec)	Investec provides specialist banking as well as wealth and investment services to individuals, businesses and intermediaries.	Investec tested a safe custody service for crypto assets through its innovative Digital Asset Vault (DAV) offering. The DAV is intended to be a secure mechanism for Investec clients to store and transfer crypto assets, reducing reliance on cold storage (i.e. complex hardware wallets and/or crypto asset exchanges). The objective of testing the DAV in the sandbox was primarily to test Investec's regulatory compliance, regulatory reporting processes, and related risk management frameworks in collaboration with the IFWG.	Testing was successfully completed during March 2022.

Insights gained during RSB

Testing provided useful insights on transaction screening, the application of Client Identification and Verification (CIV) and AML in compliance with the FIC Act and the FATF travel rule. Consideration was further given to compliance with FinSurv's reporting framework. Of particular interest in this use case was how an incumbent bank could potentially navigate an uncertain regulatory environment, especially since the existing South African exchange control framework does not appropriately cater for crypto assets.

The path to production for a regulated entity looking to introduce a product/service in an unregulated space may prove to be more challenging, as it must navigate the fit of such a product/service against existing regulation. However, it should be noted that the counter point is that the risk of an unregulated entity issuing an innovative product/service into an unregulated space is that it may eventually run afoul of future regulation.

Next steps

The insights gained are contributing to the further engagement on, and development of, the crypto asset regulatory framework in South Africa, including in respect of the implementation of the travel rule. In addition, the Prudential Authority (PA) has issued a guidance note to the banking industry on compliance with AML/CFT and proliferation financing (PF) as it relates to crypto assets and CASPs.