

Dear FSB Team

I'm writing to submit my answers in response to the consultative document on stablecoins. Thank you very much for the opportunity to comment. I share the concern about identifying an adequate regulatory approach for stable coins to afford clarity to end-users and stable coin issuers. As a general observation, I felt the paper may unduly inflate GSC risks that are otherwise common with exchange rate and other financial investments. It may distract from aligning GSCs with existing regulatory provisions and not be consistent with the principle of same business, same risk, same rules.

My comments centre on the rationale of the proposed regulatory treatment and follow in part my LSE Working Paper on [basic principles for regulating crypto-assets](#). Please see my proposed answers below.

I hope the above comments are useful.

Best regards,

Ousmène

Dr Ousmène Jacques Mandeng
Senior Advisor | [Accenture Global Blockchain Technology](#)

Addressing the regulatory, supervisory and oversight challenges raised by global stablecoin arrangements

1. Do you agree with the analysis of the characteristics of stablecoins that distinguish them from other crypto-assets?

The classification of stable coins should be functional. The distinction from other crypto-assets will depend on their primary use. The stabilisation mechanism, functions and adoption should not be material for their classification though their primary use may derive from those. Any crypto-asset or any asset for that matter may of course serve as medium of exchange. If the primary use of stablecoins is to serve as mediums of exchange, they should be treated as mediums of exchange or currencies.

2. Are there stabilisation mechanisms other than the ones described, including emerging ones, that may have implications on the analysis of risks and vulnerabilities? Please describe and provide further information about such mechanisms.

The identification of stabilisation mechanism is comprehensive.

3. Does the FSB properly identify the functions and activities of a stablecoin arrangement?

Does the approach taken appropriately deal with the various degrees of decentralisation of stablecoin arrangements?

The reports lacks a general discussion about the economic principles and policy framework underlying stablecoins. GSCs can be considered mediums of exchange or currencies issued under a fixed exchange rate regime or provisions akin to a currency board. The paper could usefully discuss the properties of GSCs against other fixed exchange rate currencies.

The degrees of decentralisation of stablecoin arrangement should have little effect on their functions though it may have implications for their regulatory treatment.

The report could expand the identification of the functions and activities related to a stablecoin arrangement. It could usefully distinguish between a GSC as medium of exchange, that is, the coin, and the underlying infrastructure, the DLT-platform and wallets and related services. The different elements should be subject to different regulations, e.g., a wallet may be regulated like a money transmitter or a payment firm. The blockchain meets functions akin to a payment system or payment engine or messaging network or combination thereof.

4. What criteria or characteristics differentiate GSC arrangements from other stablecoin arrangements?

Any stablecoin can serve different functions including as medium of exchange for international transactions. There do not seem any characteristics that distinguish GSCs from other stablecoins.

5. Do you agree with the analysis of potential risks to financial stability arising from GSC arrangements? What other relevant risks should regulators consider?

The analysis of potential risks seems adequate. However, the paper may unduly associate those risks with GSCs as those are otherwise common with exchange rate and other financial investments. For example, adverse confidence effects are an inherent feature of foreign currencies and revealed in large sustained exchange rate volatility. Similarly, on "fire sales," large scale disorderly redemptions are frequent in financial markets and provisions that apply to asset managers should apply to, for example, GSC backing portfolio managers.

6. Do you agree with the analysis of the vulnerabilities arising from various stablecoin functions and activities (see Annex 2)? What, if any, amendments or alterations would you propose?

The most important risk seems widespread currency substitution. While the paper specifies that currency substitution is beyond the scope of the paper, it should describe problems of dollarization including in the context of monetary sovereignty to guide discussions about possible GSC-induced vulnerabilities.

7. Do you have comments on the potential regulatory authorities and tools and international standards applicable to GSC activities presented in Annex 2?

The adoption of international standards, while valuable in principle, seem ambitious and may take considerable time prolonging uncertainty for the sector. The paper could usefully attempt to map GSCs into existing national regulatory provisions. As the use of GSCs will be national in scope, used by national actors including in international transactions, the principles guiding regulation of foreign exchange should be applied primarily.

8. Do you agree with the characterisation of cross-border issues arising from GSC arrangements? Are the proposed recommendations appropriate and proportionate with the risks? Do they promote financial stability, market integrity, and consumer protection without overly constraining beneficial financial and technological innovation?

a. Are domestic regulatory, supervisory and oversight issues appropriately

identified?

The paper could usefully review if GSCs should be subject to a similar regulatory regime as a foreign currency. In many countries residents are allowed to hold foreign currency accounts and there is a priori no reason why GSC should not equally be subject to the same regulatory regime. The difference in issuer between a private entity and foreign central bank should be of little practical consequence to guide regulation from a domestic point of view.

b. Are cross-border regulatory, supervisory and oversight issues appropriately identified?

The identification of appropriate regulatory and supervisory and other oversight arrangements should be mapped to the functions of GSCs as foreign currencies.

c. Do the recommendations adequately anticipate and address potential developments and future innovation in this sector?

The regulatory certainty would represent an essential factor in supporting future innovation in the sector.

10. Do you think that the recommendations would be appropriate for stablecoins predominately used for wholesale purposes and other types of crypto-assets?

The recommendations for GSCs used in large value transactions should naturally be different from regulations for retail use. In a wholesale environment of financial professionals provisions for consumer protection and other will naturally be less relevant.

11. Are there additional recommendations that should be included or recommendations that should be removed?

The paper could consider, as a fundamental approach, to treat each activity associated with the GSCs differently from coin issuance to managing the backing portfolio (as per comment to question 3). The regulation of GSCs should shift to the entities that are offering services related to the GSCs. If GSCs are mediums of exchange, circulation of foreign currencies normally attract limited restrictions. Spot currency transactions are typically unregulated, that is, in many countries it is legal to pay in or acquire any currency one likes. Regulated activities like exchanges or investment of the backing portfolio of a GSC should naturally be subject to the same regulation as any regulated activity be as part of a collective investment scheme or otherwise.

12. Are there cost-benefit considerations that can and should be addressed at this stage?

The paper could usefully give considerations to offer a lighter regulatory regime for GSCs that are small in scope to not overburden start-ups and stifle innovation.

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