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# BBVA comments to FSB consultative document - Addressing the regulatory, supervisory and oversight challenges raised by global stablecoin arrangements

July 15, 2020

BBVA appreciates the opportunity to comment on the Financial Stability Board's (FSB) consultative document on addressing the regulatory, supervisory and oversight challenges raised by global stablecoins, published on April 14th, 2020. We welcome FSB's efforts in providing a comprehensive overview of financial stability risks as well as a set of recommendations aiming to coordinate a global response to the challenges posed by global stablecoin arrangements. BBVA believes that the recommendations are appropriate while being high-level. Given the global nature of stablecoin arrangements, global coordination and cross-border cooperation are of key importance. Further feedback can be found in BBVA answers to the consultation below.

## Consultation response

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

   We welcome the FSB's efforts in analysing the characteristics that distinguish so called global stablecoins from other cryptoassets, as this is essential to ensure an adequate understanding of the risks and, hence, to craft the best regulatory response.

   We broadly support the analysis and in fact consider that the three features brought forward (stabilisation mechanism, combination of activities and global reach) characterize global stablecoins. Having said that, it is the existence of a stabilisation mechanism and the activities conducted to achieve such stabilisation which truly distinguish stablecoins from other crypto-assets.

   Moreover, we are concerned that the definition of stablecoin as "an asset aiming to maintain a stable value" might be too broad, as it might encompass a wide range of activities, including some which are analogous (e.g. by performing similar economic functions) to activities that already have a fit in the existing regulatory framework. This makes the scope of application of the recommendations unclear, as no single bespoke regime can solve the challenge of ensuring a fit for purpose regulatory treatment for all stablecoins. Thus, the principle "same activity, same risks, same rules" is to prevail, to ensure that initiatives that perform economically similar functions are regulated equivalently and regardless of the type of provider and the technology employed.

Moreover, given the global nature of stablecoins, a globally consistent approach is needed to define a regulatory treatment to the various types of stablecoins, including the clarification of the nature of the asset or activity in a globally coordinated manner

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.

   Broadly, the stabilisation mechanisms described are comprehensive, but both categories include a wide variety of mechanisms with different risks associated. Furthermore, as the market continues to evolve, emerging stabilization mechanisms can bring novel vulnerabilities, so it will be important to continuously assess the emergence of new stabilisation mechanisms.

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?

   BBVA supports the analysis undertaken by the FSB in identifying the functions and activities of a stablecoin arrangement. Still, further clarification on the application of existing frameworks to these functions and service providers would be desirable.

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

   The term global stablecoin arrangement has been used so far (e.g. in the G7 Report on stablecoins) to refer to stablecoin initiatives that have the potential to achieve a global or very large footprint, for instance because they are built on an existing large and/or cross-border customer base, and therefore present a different risk to financial stability. We believe this terminology could be misleading, as all stablecoins can be made available globally, at least on a technical level. A more accurate terminology might be referring to global systemically important stablecoins arrangements.

   Having said that, and regardless of the term to be used, we would appreciate the FSB, together with other standard-setting bodies (e.g. CPMI and IOSCO) to define a set of criteria and a clear methodology to identify when a stablecoin arrangement is globally systemic. In this regards, we are of the view that the criteria listed in Annex 5 are relevant in determining such systemic importance. Building on that set of criteria, we would like to provide some specific comments:

- On top of the size of the reserve, its composition could be relevant to determine systemic importance. In particular, should the reserve be very large and formed by a high volume of certain assets, this might impact the availability and price of such assets. This issue has been highlighted by the European Central Bank recently (ECB (2020), "A regulatory and financial stability perspective on global stablecoins").
- Stablecoins, specially when they are built on previously existing large and global customer bases, could achieve a large scale in multiple jurisdictions rapidly in a short period of time. Thus, the framework and methodology to identify which stablecoin arrangements are systemically important should be forward-looking, considering not only the current size and global presence, but also the possibility of a rapid scale up.
- The FSB might need to consider the interconnectedness not only with financial institutions but also with other financial instruments, service providers or payments networks, and whether interoperability with other networks or financial market infrastructures is relevant in determining the substitutability of the arrangement.

Finally, while the criteria listed in Annex 5 can help determine if a stablecoin qualifies as a GSC, it is unclear how systemic importance is to be applied to the different functions of the arrangement. For instance, financial stability risks can arise from the concentration of users' tokens and operation in a few service providers, or from critical players in other parts of the arrangement.

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

While this document brings a thoughtful analysis on financial stability risks of GSC, other risks already brought forward by the G7 in its October 2019 report, such as fair competition or data protection, have been left aside. However, as already noted by the FSB in the context of its work on the impact of BigTech companies in finance, there is a nexus between competition and data policies and financial stability which deserves attention from financial authorities. For instance, relevant features for competition dynamics, such as network effects, access to data, the openness of the GSC arrangement or its integration with other digital services or platforms, may impact the likelihood that a stablecoin grows systemic by becoming critical for the functioning of payments systems globally; hence, would have an impact on financial stability. Also, data privacy issues related with the companies operating the GSC arrangement could undermine users' confidence, which could lead to runs from stablecoins. We encourage the FSB to seek a comprehensive view, embedding the

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competition and data-related implications in its overall financial stability analysis of GSCs. However, as these challenges expand beyond the financial sector, the role of the G20 is key in steering the debate an analysis, to achieve global coordination in the response to these challenges.

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?

   In the event of stablecoins being provided at a large scale, this could imply a change in banks' funding structures, since a significant proportion of retail funding would be drained to GSC reserves. This would increase banks' funding costs and could eventually undermine the financial sector's role in financing long term investments, reducing the sector's capacity lend to the economy. This should also be considered when analyzing the financial stability implications of global systemically important stablecoins.

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

8. Do you agree with the characterisation of cross-border issues arising from GSC arrangements?

9. 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?

   We welcome the FSB recommendations, which are high-level, flexible and seek to be technology neutral, applying the principle of "same activity, same risks, same regulation". Therefore, we invite the FSB to continue liasing with other relevant bodies and standard-setters in the development of a globally consistent framework for the regulation and supervision of stablecoins initiatives.

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

      We believe that the cross-border regulatory, supervisory and oversight issues identified are appropriate, and agree with the FSB that such cross-border issues are a particular concern for GSC arrangements. While we agree with the FSB on the fact that ensuring a holistic supervision and oversight of GSCs arrangements is of the utmost importance, we would like to emphasize that such holistic supervision needs to rest on activity-specific regulatory frameworks for the activities that form part of stablecoin arrangement, proportionate to their risks. This is essential to ensure that liabilities and responsibilities within the different parties are appropriately allocated, and that a level playing field between traditional financial service providers and new entrants is ensured in the provision of services related to stablecoins.

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

One main development in the payments area is programmable money, which can bring benefits for certain use cases but entails additional risks related to the automation of decisions. Further analysis of these issues will be required.

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

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

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