

December 15, 2022

Secretariat to the Financial Stability Board
Bank for International Settlements
Centralbahnplatz 2
CH-4002 Basel

Sent to: fsb@fsb.org

Re: CBA Comments on the FSB Proposed framework for the international regulation of crypto-asset activities

The Canadian Bankers Association¹ (CBA) welcomes the opportunity to comment on the Financial Stability Board's (FSB) *Proposed framework for the international regulation of crypto-asset activities* (Proposed framework). In addition to the points highlighted below, additional high-level comments are included in the attached Appendix.

We commend the FSB and standard-setting bodies on the analysis they have undertaken, and we support the FSB's recommendation that authorities should develop comprehensive regulation, supervision, and oversight of crypto-asset activities, including global stablecoin (GSC) arrangements.

The CBA is supportive of greater clarity on the roles and responsibilities of relevant authorities who may oversee crypto-asset activities to ensure the integrity of the financial services ecosystem while also enabling innovation. Care should be taken to ensure that regulation which is appropriate for currently unregulated participants in crypto-asset activities and markets does not introduce overly burdensome requirements for banks and unintentionally discourage well regulated participants in this sphere.

In previous CBA submissions² we have highlighted the risks in this area and the need for a comprehensive, holistic and principles-based approach. We are particularly supportive of the core principle of same risk, same activity, same regulation. It will be critical that the risks associated with crypto-asset activities that currently do not fall under the regulated framework are identified and subject to appropriate regulatory oversight to maintain the strength, stability, and integrity of the financial services system. Oversight should be balanced – it must be commensurate with the underlying risks. It will also be

¹ The Canadian Bankers Association is the voice of more than 60 domestic and foreign banks that help drive Canada's economic growth and prosperity. The CBA advocates for public policies that contribute to a sound, thriving banking system to ensure Canadians can succeed in their financial goals. www.cba.ca

² <https://cba.ca/cba-submission-to-fsb-consultation-on-global-stablecoin-arrangements>
<https://cba.ca/submission-financial-market-infrastructures-to-stablecoin-arrangements>

imperative for regulators to cooperate and work together in a coordinated manner so that the resulting regime is as consistent, harmonized and as efficient / effective as possible.

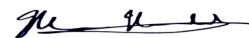
Going forward, it will be particularly important for any proposed regulatory framework to take into account existing controls that may already be in place to mitigate risks. For example, regulated financial institutions may make use of blockchain / distributed ledger technologies and the issuance of tokens or stablecoins to modernize their systems and to provide new and innovative products and services to clients. One example is the Regulated Liability Network (RLN), a US-based proof of concept (POC) where commercial banks will issue simulated digital money or 'tokens' representing the deposits of their own customers and settle through simulated central bank reserves on a shared, multi-entity distributed ledger.

Activities, like the RLN, would take place within an existing set of controls relating to governance, risk management, operational resilience, consumer / investor protection, privacy, cyber controls, and capital and liquidity obligations designed to capture risks across the enterprise regardless of their source. These regulations result in consumer confidence and trust in the banking sector. Without comparable regulation and oversight outside the banking sector, concerns arise around a lack of similar confidence and trust in crypto-asset activities.

The fact that protection already exists in the banking sector should be considered in designing the regulatory framework for crypto-assets. There are concerns, for example, that recent proposals on the prudential exposure of regulated firms to crypto-assets fail to take these factors into account, resulting in the imposition of overly conservative restrictions on the activities of regulated financial institutions. This is not only unnecessary, but would negatively impact innovation within the regulated sphere, create unlevel playing field concerns and increase risks in the system - including potentially driving crypto-asset activities into areas that may be subject to less rigorous regulatory oversight.

Thank you for considering our comments. We would be pleased to discuss our response to the Proposed Framework at your convenience.

Sincerely,

A handwritten signature in black ink, appearing to be "J. K. ...", written over a horizontal line.

CBA comments on FSB Proposed framework for the international regulation of crypto-assets activities

CBA Members' Comments

OVERALL COMMENTS – Regulation, Supervision & Oversight of Crypto-asset Activities & Markets

The context and resulting high-level recommendations are clear and well organized. Structuring the consultative document into four broad sections is, in our view, a good approach to guide readers through this complex subject. Section 2 - *Development of regulatory and supervisory approaches and standards*, which outlines the survey work done by the Financial Stability Board (FSB) to assess national approaches to the issue, aptly highlights the urgent need for the establishment of a broader international governance framework with clear lines of accountability for all functions and activities related to oversight of global stablecoin (GSC) arrangements.

In practical terms, we feel dedicating an additional section to the need for developing some form of international governance framework to address or coordinate activities as they relate to all known crypto-asset activity risk categories, many of which are already outlined in the paper (AML/CFT, data privacy, cybersecurity, consumer and investor protection, market integrity, competition policy, taxation, monetary policy, monetary sovereignty and other macroeconomic concerns), in coordination with the IMF, World Bank, Basel Committee on Banking Supervision, etc. would be helpful.

Doing so could help inform discussions on how the international community needs to mobilize more quickly to tackle this evolving landscape and better understand the potential impacts on the broader financial system. With non-compliance in this non-traditional sector possibly introducing systemic risk into traditional banking sector, it is imperative that authorities responsible for payments, securities and markets, prudential, banking, insurance and market conduct regulation cooperate more closely and more urgently in line with their respective mandates. Sharing information through existing channels, networks, fora etc. may not be sufficient given the complexities involved.

CBA Members' Comments

OVERALL COMMENTS – Review of FSB High-level Recommendations of GSC Arrangements

CBA members support a holistic, risk-based approach to GSC arrangements grounded in the following principles¹:

- Regulators should take a steady and measured approach and act in a timely manner when considering any possible GSC arrangements. Particular attention should be paid to those initiatives led by or involving non-regulated market participants, including ensuring oversight of their activities.
- Any oversight and regulatory treatment should be commensurate with the underlying risks and should consider the different types and uses of GSCs in the market.
- A principles-based approach is needed that strikes a balance between the goals of effective oversight and fostering innovation, thereby allowing the market to continue to grow and evolve.

We believe the FSB's high-level recommendations effectively describe the main issues and / or levers required by jurisdictions and the international community to address the evolving concerns with crypto-assets. The recommendations highlight the key concerns, risks and issues that authorities need to understand and evaluate as soon as possible, given the expanding reach of digital platforms and alternative currencies.

We would suggest the following for further consideration:

- Domestic and international regulatory authorities must cooperate and coordinate more closely with each other given the cross-border nature of crypto-assets, which create regulatory, supervisory and enforcement challenges. Engagement in an ongoing dialogue with key stakeholders is also important. The FSB must assume a leadership role in ensuring this occurs.
- Regulatory authorities should work together in a coordinated manner as digital platforms expand. Authorities should not only require that GSC arrangements have effective risk management frameworks in place to deal with operational resilience, cybersecurity, AML/CFT requirements and privacy and data protection safeguards, but that consumer protection safeguards are also in place to maintain confidence in the broader financial system.
- Given that existing cross-border regulatory cooperation arrangements have typically been designed for authorities supervising traditional financial institutions and activities, we support the FSB's view that these arrangements be reviewed to assess their adequacy for this new and rapidly changing world.

¹ This is consistent with the views the CBA has expressed in prior submissions on stablecoin arrangements: <https://cba.ca/cba-submission-to-fsb-consultation-on-global-stablecoin-arrangements>; <https://cba.ca/submission-financial-market-infrastructures-to-stablecoin-arrangements>