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By email: [fsb@fsb.org](mailto:fsb@fsb.org).

**RE: Proposed framework for the international regulation of crypto-asset activities and “global stablecoins” – consultative response**

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Dear Mr. Secretary General Schindler and Chair Knot,

Circle appreciates the opportunity to provide comments to the Financial Stability Board’s (FSB) proposed framework for the international regulation of crypto-asset activities, including the FSB High-Level Recommendations on the regulation, supervision and oversight of “Global Stablecoin” Arrangements. Since Circle’s founding, we have prioritised responsible financial services innovation and constructive engagement with regulators and public authorities around the world.

Circle is the sole issuer of USD Coin (USDC) and EURO Coin (EUROC), dollar- and euro-backed digital currencies, respectively. USDC and EUROC are two of the largest stablecoins measured by market cap globally. USDC has been integrated as a settlement option in leading merchant and credit card networks, supports cross-border remittances, and it is deployed as a payment option by e-commerce platforms. A full description of Circle’s activities, including discussion of its operational risk management practices, audited financial statements, and filings with the U.S. Securities and Exchange Commission (SEC), can be found on its website.<sup>1</sup>

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<sup>1</sup> Circle, *Investor Relations*, <https://investor.circle.com/overview/default.aspx>.

## General Questions (Qs 1-5)

### 1. Are the FSB's proposals sufficiently comprehensive and do they cover all crypto-asset activities that pose or potentially pose risks to financial stability?

Circle appreciates the Financial Stability Board's (FSB) efforts to both map out and address the diverse and potentially interwoven risks in the crypto-asset sector, which Circle believes have been comprehensively captured. These proposals sufficiently encompass not only the risks to financial stability but also the potential impact that poor market conduct can have in amplifying counterparty, credit, liquidity, and other risks, particularly for entities offering consolidated activities. Events that have taken place in digital asset markets over the past year have highlighted the urgency for regulators to take meaningful steps to regulate and supervise crypto activities and, in particular, to establish a global foundation to address structural regulatory vulnerabilities. Circle applauds the Board's engagement with the G20 to promote financial resilience, urge regulation and oversight, and highlight the importance of harnessing the benefits of the underlying technology.<sup>2</sup>

The failure of significant crypto-asset companies recently highlights the borderless nature of crypto-asset activities and the urgent need to address the vulnerabilities created by a lack of regulatory parity. Many crypto firms have been able to skirt regulatory scrutiny by claiming lack of jurisdiction or obfuscating their corporate ties and beneficial ownership. Addressing a lack of corporate transparency is neither new nor unique to crypto-assets; however, the consequences of failing to address these risks are greater for natively digital activity. Whereas the traditional finance risks stemming from offshoring mainly involve tax avoidance and money laundering, the inherently global reach of digital assets means that offshore services can also carry prudential, market conduct, and fiduciary risk due to the seamless market access enabled by crypto. Circle supports the G20's prioritisation of beneficial ownership and transparency of legal persons and its particular focus on transnational flows.<sup>3</sup> It also encourages the Board and G20 leaders to place additional focus via the G20 Anti-Corruption Working Group on the magnified risks that a lack of corporate transparency and regulatory arbitrage can have in the digital assets space on retail consumers and investors globally given the inherently interconnected nature of crypto-assets.

### 2. Do you agree that the requirements set out in the CA Recommendations should apply to any type of crypto-asset activities, including stablecoins, whereas certain activities, in particular those undertaken by GSC, need to be subject to additional requirements?

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<sup>2</sup> Financial Stability Board, *Letter to G20 Leaders*, 10 Nov. 2022, <https://www.fsb.org/wp-content/uploads/P111122.pdf>.

<sup>3</sup> The Group of 20, *2021 G20 Rome Leaders' Declaration*, 31 Oct. 2021, [https://www.unodc.org/documents/corruption/G20-Anti-Corruption-Resources/Leaders-Communiqués/2021\\_G20\\_Rome\\_Leaders\\_Declaration.pdf](https://www.unodc.org/documents/corruption/G20-Anti-Corruption-Resources/Leaders-Communiqués/2021_G20_Rome_Leaders_Declaration.pdf).

Circle recognises the Board’s effort to create an additive regulatory structure that layers stablecoin regulations on top of a broader standard for crypto assets. While this strategy offers clarity with respect to some crypto-asset service providers (CASPs), textual differences between the recommendations as well as substantive differences between the treatment of crypto assets and global stablecoins (GSCs) create the potential for differing interpretations and application of the recommendations, complicating regulatory efforts to tailor risk-appropriate domestic standards and creating the potential for witting or unwitting regulatory arbitrage. For both competent authorities and market participants, we encourage the Board to separate the standards to provide clear, uniform guidance on GSC arrangements while adequately capturing some of the risks present in certain crypto activities – particularly with respect to market conduct – that may not be as inherently pronounced for entities dealing in a single tokenised asset.

As an example, Crypto Asset Recommendation (CA Rec.) 4 lays out requirements for issuers and CASPs to each have in place and disclose a comprehensive governance framework with respect to the risks posed by the activities or markets in which the issuers or providers participate. However, Global Stablecoin Recommendation (GSC Rec.) 4 notes that “GSC arrangements” maintain a similar requirement to have in place a comprehensive governance body applying to “all functions of the GSC arrangement.” As described in greater detail in Circle’s response to Question 12, High-Level Recommendation 1, GSC arrangements as defined by the Board may consist of a combination of independent issuers and service providers with no single governing body or authority over different functional components such as issuance, exchange, or market-making activity. Authorities involved in a GSC arrangement may interpret GSC Rec. 4 as necessitating global pooling of governance responsibility and/or risk management across providers to maintain a comprehensive governance body for the GSC arrangement. This might lead to the pooling of risk and potentially conflict with each individual provider’s proper risk management of GSCs and other crypto-assets per CA Rec. 4.

This potential distinction between independent and pooled risk management becomes more important when viewed through the lens of CA Rec. 9, which advises authorities to supervise both the individual and aggregated risks and, where necessary, ensure that certain functions and activities are kept separate. This distinction carries real-world significance when looking at the recent FTX collapse, for example, where several actors with shared governance structures across CA and GSC functions apparently took actions that amplified financial and market conduct risks. While Circle implements robust governance requirements over all business functions, Circle likewise views it as a fundamental safeguard that risk-management of GSC issuance is separate and independently governed from custody, exchange, or market-making functions.

The pooling of governance or risk management within a CA token or GSC arrangement has the potential to amplify market conduct concerns – as has been seen in 2022 – and therefore, consistent with CA Rec. 4, issuer and intermediary functions should be governed independently. As such, Circle requests that the Board review the CA and GSC recommendations and differentiate the requirements for the functions involved in a crypto asset arrangement to help

facilitate clearer interpretation. If the Board continues to pursue the additive structure for GSC recommendations, Circle encourages the Board to ensure that there are no discrepancies or areas for contravening guidance or misinterpretation between like-recommendations, and that the guidance is consistent about individual or pooled risk management.

3. Is the distinction between GSC and other types of crypto-assets sufficiently clear, or should the FSB adopt a more granular categorisation of crypto-assets? If so, please explain.

Circle encourages the FSB to adopt a more granular categorisation of crypto-assets, especially stablecoins. As drafted, the definition of “global stablecoin” obscures important differences in the design of stablecoins - in particular, differences in the collateral backing the stablecoin (or lack thereof). Without additional detail, the FSB risks over-generalising diverse tokens into a single framework that would reduce the efficacy of any regulatory scheme while reducing incentives for appropriate risk management and appropriate market conduct.

USDC is a tokenised cash stablecoin. Tokenised cash stablecoins are fiat-backed stablecoins solely collateralised by cash and cash equivalents. They differ in safety from other kinds of stablecoins, such as fiat-backed stablecoins collateralised with riskier reserves such as corporate bonds, as well as from crypto-backed stablecoins collateralised by crypto-assets. They are also markedly different from algorithmic stablecoins, which may not be collateralised by anything.<sup>4</sup> Tokenised cash also differs from tokenised deposits, sometimes called tokenised bank liabilities, which are typically designed to be backed by fractionally reserved deposits.<sup>5</sup> These different asset designs, which industry participants colloquially refer to together as “stablecoins,” should not be considered exactly equivalent under any regulatory framework given significant variations in counterparty, credit, liquidity, and prudential risk.

As an example, tokenised cash stablecoins available today are generally issued by a single, incorporated entity, while other stablecoins are deployed autonomously through blockchain smart contracts. Additionally, tokenised cash stablecoins carry lower market risk, lower credit risk, and higher liquidity relative to other stablecoin types such as tokenised deposits. As is the case for Circle’s USDC, tokenised cash does not inherently involve additional counterparty credit risk when the reserves are wholly held in segregated accounts and designated for the benefit of tokenised cash holders. With a proper resolution and recovery framework, tokenised cash can

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<sup>4</sup> See also Gordon Liao, *Macprudential Considerations for Tokenised Cash*, [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=4228268](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4228268), which comprehensively classifies stablecoin designs and explains the liquidity and risk profile of tokenised cash.

<sup>5</sup> There are no fully in-market tokenised deposit stablecoins, but most tokenised deposit experiments or white papers contemplate banks making customer balances, which are fractionally reserved, movable on a blockchain. See, e.g., USDF Consortium, *USDF Consortium Launches to Enable Banks to Mint USDF Stablecoins*, 12 Jan. 2022, <https://www.prnewswire.com/news-releases/usdf-consortium-launches-to-enable-banks-to-mint-usdf-stable-coins-301458911.html> and J.P. Morgan Chase, *J.P. Morgan Creates Digital Coin for Payments*, 14 Feb. 2019, <https://www.jpmorgan.com/solutions/cib/news/jpmorgan-creates-digital-coin-for-payments>.

enable users to maintain the same level of legal rights as would be possible through ownership of the underlying fiat currency.

Circle encourages authorities to consider creating a more nuanced framework that allows for differentiation between issuers of tokenised cash and issuers of other crypto-assets that entail more prudential or other risk. For example, given the simple structure of tokenised cash compared to other crypto-assets, including other stablecoins, tokenised cash should generally be treated based on the underlying asset. A more differentiated framework would enable regulators to establish clear standards for protecting consumers and controlling financial stability risks while allowing firms to tailor risk mitigation to their specific products.

Circle believes that stablecoin issuers should be prohibited from fractionalising or rehypothecating the reserve assets that back outstanding stablecoins in circulation. As described further below, tokenized deposits, for example, carry over the credit, counterparty, and market risk of the underlying fractionally reserved deposits and should therefore be treated as more risky than tokenised cash tokens. Additionally, for stablecoins used in a digital wallet as part of a payment system, traded on a digital asset exchange, or custodied by a CASP (either related to or functioning independently of the above mentioned service providers), those entities should likewise be prohibited from fractionalising, rehypothecating, or lending against those stablecoin holdings given the risks to financial stability and redemption rights for customers of those services, without the explicit authorisation of the customer. Financial stability and consumer protection are implicated in stablecoin arrangements. Macro- and microprudential frameworks should be considered as essential for all entities in a GSC arrangement.

#### 4. Do the CA Recommendations and the GSC Recommendations each address the relevant regulatory gaps and challenges that warrant multinational responses?

Circle agrees that the CA and GSC recommendations generally address the relevant regulatory gaps and challenges that authorities should focus on when formulating and coordinating a multinational regulatory regime. Given the anticipated completion target of 2025, Circle believes it is critical that, in the interim, the Board work with regulators to ensure that there are clear: 1) mechanisms in place for authorities to inform each other in timely manner of potential adverse situations, as noted in CA Rec. 3; and 2) processes to address gaps or conflicting regulatory requirements to reduce opportunities for regulatory arbitrage and to increase clarity and consistency for market participants. This is even more important because regulators in a number of countries are already developing and implementing domestic regulations that, while needed, may not reflect emerging consensus around international standards.

In particular, regulatory harmonisation on reserve asset standards and any risk-based capital ratio requirements should be considered. Some jurisdictions appear to favour high-ratio, low-quality reserves over lower-ratio, high-quality reserves. Circle believes that lower-ratio, high-quality

reserves are safer for users and the financial system, among other benefits, and it encourages the FSB to advocate for coordination on this matter.

5. Are there any financial stability issues that remain unaddressed that should be covered in the Recommendations?

Circle does not believe that there are additional specific risks that should be covered in the recommendations but offers some comments at a high level. First, in light of recent events, Circle encourages the Board to continue working with the Financial Action Task Force (FATF) and International Organisation of Securities Commissions to focus on and potentially expand their reviews of market conduct risks. In particular, given the failure of FTX, groups should focus on vertical consolidation in the crypto-asset industry to provide additional guidance for authorities in managing cross-border market risk. The 2008 financial crisis resulted from a combination of opaque business practices and a concentration of banking activities, and unbundling of activities combined with the inherent transparency of distributed ledger technology offers opportunities to encourage responsible development and accountability.

More broadly, the systemic importance of crypto asset services, whether offering payment, settlement, or consolidated functions, should generally be evaluated based on the same criteria across assets, regardless of whether they involve crypto-asset tokens, stablecoins, or other services. Recent market turmoil from the collapse of global crypto-asset exchange FTX and the underlying over-leveraging of tokens highlights the importance of evaluating exchanges and other intermediaries based on the systemic importance of the functions they play. Focusing the evaluation of systemic importance narrowly on stablecoin arrangements may not only miss other systemically important actors but also factors that could exacerbate market stress, particularly when market functions are combined under a single entity.

Lastly, at a more granular level, Circle notes that Annex 1 identifies a broad range of real and hypothetical risks, some of which are neither unique to crypto-assets nor greater threats to financial stability than the risks inherent to the traditional financial sector. For example, exchange rate risk resulting from payment services would likely result from a combination of underlying structural vulnerabilities and external monetary pressures but likely not from the type of technology used.<sup>6</sup> This is an area in which the high-level principle of “same risk, same activity, same regulation” must be implemented, and Circle encourages the Board to take a technology neutral approach in developing regulatory recommendations to deal with risks that are neither unique to crypto-assets nor likely to result solely or disproportionately from crypto assets.

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<sup>6</sup> Financial Stability Board, *Regulation, Supervision and Oversight of Crypto-Asset Activities and Markets*, 11 Oct. 2022, <https://www.fsb.org/wp-content/uploads/P111022-3.pdf>, at 37, discussing “exchange rate risk” as a risk from the general use of crypto-assets for payments.

## **Recommendations for the Regulation of Crypto-asset Activities (Qs 6-10)**

6. Does the report accurately characterise the functions and activities within the crypto ecosystem that pose or may pose financial stability risk? What, if any, functions, or activities are missing or should be assessed differently?

Circle broadly agrees with the Board’s comprehensive identification of the activities and functions in the crypto-asset space. However, Circle believes that “payment activity vulnerabilities” (p.32) requires more clarification.

The report notes several risks in the use of crypto-assets as payment for goods, services, gifts, and remittances that could be amplified for financial institutions with direct or indirect exposure to the use of crypto-assets. In comparing blockchain-based payment systems to traditional financial market systems, it is important to use as a frame of reference not just existing bank-intermediated payment systems in determining risk in the payment space but also the use of physical cash, which currently lacks the traceability of blockchain-based payments. As a domestic and/or cross-border payment mechanism, crypto-assets currently offer significant advantages over cash in anti-money laundering and countering the financing of terrorism (AML/CFT) as well as benefits for the end users.

7. Do you agree with the analysis of activity patterns and the associated potential risks?

Circle has no comments in response to Question 7.

8. Have the regulatory, supervisory and oversight issues and challenges as relate to financial stability been identified accurately? Are there other issues that warrant consideration at the international level?

The Board’s recommendations and findings sufficiently capture the issues and challenges affecting financial stability in the crypto asset space. In particular, Circle applauds the Board’s efforts to capture market conduct risk arising from consolidation of multiple functions under crypto-asset trading and lending platforms. Given the complex multi-jurisdictional corporate arrangements in which entities and affiliates may seek to compartmentalise or differentiate subsidiary activities, Circle again encourages the Board to work closely with authorities to enhance the mechanisms for cross-border cooperation and timely exchange of information to prevent and manage financial instability.

9. Do you agree with the differentiated requirements on crypto-asset issuers and service providers in the proposed recommendations on risk management, data management and disclosure?

Circle is supportive of the differentiation made between crypto-asset issuers and service providers. As explained in further detail in response to Question 12, High-Level Recommendation 1, a principal value proposition of public blockchains is that they disaggregate financial functions. In traditional financial services, a single company frequently issues an asset, facilitates transactions, and provides a consumer interface; in contrast, these functions can be provided by different entities on public blockchains. The FSB's recognition of the difference between crypto-asset issuers and service providers should be maintained in all regulatory recommendations, including those related to the regulation, supervision, and oversight of global stablecoin arrangements. Please see Circle's recommendations for modifications to GSC Rec. 1 for more information.

Circle believes that the requirements for risk management, data management, and disclosure will be of particular importance for companies that interface directly with retail consumers, such as crypto asset exchanges. Simultaneously, consumer protection can be implemented through regulation of business-to-business firms such as stablecoin issuers. Circle urges the Board to focus on mandating frequent disclosures and risk management of the reserves backing global stablecoins.

10. Should there be a more granular differentiation within the recommendations between different types of intermediaries or service providers in light of the risks they pose? If so, please explain.

Circle is generally comfortable with the level of granularity provided by the FSB in the report. Circle believes that as a standards-setting body, the FSB is best-equipped to create a high-level framework that national authorities can then implement. More specific regulations tailored to more granular categories of entities should be implemented carefully by national regulators.

If the FSB chooses to provide additional granularity in its recommendations, it should consider making a distinction between entities that serve consumers and non-accredited investors and entities whose operations are purely business-to-business. Such a distinction, well-accepted in financial regulation, would be appropriate because the risks associated with being a consumer-facing financial institution are different from those stemming from purely servicing businesses or other financial institutions.<sup>7</sup> For example, consumers may require simplified

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<sup>7</sup> For example, in the United States, the U.S. Securities and Exchange Commission (SEC) generally exempts from registration offerings of securities that are only offered to accredited investors. 17 CFR § 230.506. Separately, the U.S. Consumer Financial Protection Bureau was created to police financial products or services offered specifically for "personal, family, or household purposes." 12 USC § 5481(5).



disclosures of terms, fees, and other pertinent transactional information, whereas businesses may be more able to fully assess tailored terms and contracts. Additionally, while all financial institutions are obligated to conduct Know Your Customer (KYC), the process for verifying the identity of a natural person is different from the often more advanced problem of identifying beneficial ownership of a legal person.

## Recommendations for the Regulation of Global Stablecoins (Qs 11-15)

11. Does the report provide an accurate analysis of recent market developments and existing stablecoins? What, if anything, is missing in the analysis or should be assessed differently?

Circle agrees with the FSB that the recent performance of certain tokens highlights the need for rigorous regulation. As the GSC High-Level Recommendations already note, many stablecoin projects “would need to make significant improvements to their governance, risk management, redemption rights, stabilisation mechanisms and disclosures, in order to meet the High-Level Recommendations.”<sup>8</sup> However, the report neglects to mention certain stablecoins, such as USDC, that are already well-structured to address many of the key risks raised in the FSB report.

While Circle recognises the importance of highlighting flaws in the design of GSC arrangements, it regrets that the FSB has not included similar analysis of successful stablecoin designs as part of its market analysis. For example, while the FSB aptly criticised the algorithmic stablecoin Terra USD’s faulty financial mechanism, it did not comment on the price stability of tokenised cash stablecoins such as USDC, which maintained its peg throughout the turmoil and continues to be fully reserved by cash and cash equivalents held in U.S.-regulated financial institutions. Indeed, USDC saw an increase in total supply while maintaining a stable free market value of \$1 during periods of market turmoil (like the failure of Terra USD, Three Arrows Capital, and FTX), representing a user flight to safety.<sup>9</sup>

The FSB likewise states that “disclosures by stablecoin arrangements on the...composition and quality of reserve assets, are infrequent and often incomplete...[missing] fundamental details of the holdings, especially for lower quality and non-fiat assets.” To the contrary, Circle publishes weekly updates about the weekly supply change, gross minting, and gross burning of USDC.<sup>10</sup> Circle also publishes monthly attestations of USDC holdings from global accountant Grant Thornton which includes asset holding details down to the Treasury CUSIP.<sup>11</sup> Finally, Circle’s financial statements are annually audited and filed with the U.S. Securities and Exchange

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<sup>8</sup> Financial Stability Board, *Review of the High-Level Recommendations of the Regulation, Supervision and Oversight of “Global Stablecoin Arrangements*, <https://www.fsb.org/wp-content/uploads/P111022-4.pdf>, at 7.

<sup>9</sup> During the weeks of May 7-13, June 13-19, and November 6-12 of this year (the failures of Terra USD, 3AC, and FTX, respectively), USDC saw supply increase by 2.2 bn, 1.7 bn, and 2.1 bn, respectively. In general, gross volumes of minting and burning surpass the total supply change because Circle services a diverse set of enterprise customers. For example, during the week of May 7-13, Circle minted 8.7 bn USDC and burned 6.5 bn USDC, netting a 2.2bn change in supply. Figures rounded from internal data.

<sup>10</sup> See Circle, *USD Coin*, <https://www.circle.com/en/usdc> under the header “Weekly USDC reserves breakdown.”

<sup>11</sup> Grant Thornton, *Report of independent Certified Public Accountants*, [https://www.centre.io/hubfs/USDC%202022\\_Circle%20Examination%20Report%20October%202022.pdf](https://www.centre.io/hubfs/USDC%202022_Circle%20Examination%20Report%20October%202022.pdf).

Commission (SEC).<sup>12</sup> All assets held in reserve are considered either cash or High Quality Liquid Assets (HQLA) as defined by the BIS, and unlike other GSC issuers, Circle's attestations and audits demonstrate that it does not hold commercial paper or other non-fiat assets in its reserve.

Finally, while we agree with the FSB's comment that "many of these existing stablecoins are issued by unregistered and unlicensed entities," Circle is registered and/or licensed to offer specific regulated financial services in the United States, United Kingdom, and Bermuda;<sup>13</sup> Circle is also provisionally licensed in Singapore.<sup>14</sup> Circle employs a robust risk management framework and compliance regime with regard to AML/CFT regulations. Circle also maintains a disaster recovery plan for its business which is intended to safeguard client assets and accounts and ensure Circle's ability to facilitate the redemption of client assets, protect its employees, and comply with all applicable federal and state legal and regulatory requirements in the United States.

While it is important to reflect on the deficiencies of failed assets in the crypto-asset ecosystem, the FSB must also pay attention to models that have proven to work well. In just the past two years, USDC has settled over \$8 trillion in on-chain value with over \$43 billion in circulation as of December 7, 2022.<sup>15</sup> Circle also recently launched a stablecoin pegged to the euro.<sup>16</sup> There is trust in, and demonstrated demand for, tokenised cash stablecoins to speed up payments, transact on public blockchains, and catalyse economic growth and financial activity. While developing regulatory frameworks for global stablecoins, the FSB should pay attention to, if not endorse, good behaviour and design choices from stablecoin issuers.

## 12. Are there other changes or additions to the recommendations that should be considered?

Circle appreciates the detail and effort evident in the FSB's High-Level recommendations for the regulation and supervision of stablecoins. Circle strongly believes that public blockchains offer improved financial services that will meaningfully reduce inefficiencies in the existing financial system for the benefit of consumers, businesses, and financial stability. As the base assets for emerging blockchain technologies, stablecoin issuers and other CASPs deserve careful, tailored, prudent regulation and supervision.

Circle has compiled the following comments to the FSB's High-Level recommendations:

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<sup>12</sup> All of Circle's SEC filings, some of which included audited financial statements, can be found on its investor relations website, available at <https://investor.circle.com/financials/sec-filings/default.aspx>.

<sup>13</sup> Circle, *Legal & Privacy*, <https://www.circle.com/en/legal/licenses>.

<sup>14</sup> On 2 November 2022, Circle received In-Principle Approval as a Major Payments Institution License holder from the Monetary Authority of Singapore.

<sup>15</sup> According to Circle internal data analysis.

<sup>16</sup> Circle, *Euro Coin (EUROC) is coming on June 30th*, 16 Jun. 2022, <https://www.circle.com/blog/euro-coin-is-coming-on-june-30>.

## High-Level Recommendation 1

Circle believes the FSB should provide additional clarity about the expected regulatory responsibilities of individual financial institutions in what the FSB calls a global stablecoin “arrangement.” Financial services regulation has traditionally assigned ownership of risk management in an entity-based manner, i.e. financial institutions are regulated and supervised for the functions they provide. Although the FSB recognises that “authorities should evaluate, identify, and clarify which authorities have responsibility for each activity of a GSC arrangement, as appropriate,” it at other times appears to treat “stablecoin arrangements” as single, cohesive entities.<sup>17</sup> As noted in the response to Question 2, this approach conflicts with CA Rec. 4 while pooling risk management, complicating accountability, and increasing the difficulty of enforcement.

Understanding the complexity and, in many cases, operational independence of entities that may be involved in a stablecoin arrangement is a foundational aspect of assessing the risks in such an arrangement. Circle, as the issuer of two tokenised cash stablecoins, believes that the regulatory frameworks that are currently being considered by governments and financial regulators to hold stablecoin issuers to high standards, reduce risk, and improve financial system stability should be extended to other participants in stablecoin arrangements. Some such standards, specifically those related to the segregation of reserve assets on behalf of the customers of stablecoin issuers, should be required of other entities participating in stablecoin arrangements (i.e. client assets should be segregated from operational funds). Simultaneously, though, different components of a stablecoin arrangement will require different types of regulation. As a simple example, the proper regulation of a wallet provider will naturally differ from the proper regulation of a public blockchain validator.

The FSB should also consider how relevant regulators can most effectively and in unison regulate a disaggregated system where entities may be unable to coordinate. In the footnoted definition of a “stablecoin arrangement,” the FSB writes that the arrangement itself “typically provides three core functions” in issuance, transfer, and storage.<sup>18</sup> However, those three core functions can be (and commonly are) executed by different CASPs, and for some functions such as stablecoin custody, the function can be executed by the user themselves.

What Circle views as the core functions of a stablecoin arrangement - “issuance, redemption, and stabilisation of the value of the coins” - could therefore be controlled by separate CASPs. For example, in the case of USDC and EUROCC, Circle is both the issuer and redeemer of USDC and EUROCC, but market price stabilisation is carried out by more than one other CASP. Indeed, while Circle’s promise to redeem 1 USDC for \$1 (or 1 EUROCC for €1) of fiat cash at all times – paired with

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<sup>17</sup> Financial Stability Board, *Review of the FSB High-level Recommendations of the Regulation, Supervision and Oversight of “Global Stablecoin” Arrangements*, 11 Oct. 2022, <https://www.fsb.org/wp-content/uploads/P111022-4.pdf>, at 11.

<sup>18</sup> *Id.* at 1.

its high-integrity business practices – establishes the market price, a multitude of unaffiliated financial institutions buy and sell USDC and EUROCC independently (and subsequently minting or redeeming USDC or EUROCC with Circle), leading to excellent price stability.<sup>19</sup>

As discussed earlier, the distribution of functions across many actors is a feature not a bug because it reduces the tendency for vertical consolidation that might threaten competition and financial stability. Circle believes that the regulation and supervision of stablecoin issuance and redemption should be kept separate from other activities that are not inherently related such as asset exchange. Similarly, the ability of a stablecoin issuer to influence or coordinate with network node operators that might affect the transfer of stablecoins is a potential market conduct issue that could introduce price distortions and misconduct. Although it is appropriate to evaluate the risk presented by each part of a “stablecoin arrangement,” it is essential that the FSB’s framework avoid incentivising - or even requiring - the consolidation of activities across market functions.

As a result, we encourage the FSB to disaggregate the concept of a “stablecoin arrangement” and provide additional clarity about the roles and regulatory responsibilities each function involved must address. Circle offers recommendations for the regulation and supervision of stablecoin issuance and redemption below.

### **High-Level Recommendation 2**

Circle agrees with FSB High-Level Recommendation 2 and is supportive of bringing crypto-asset activities into the regulated financial system. As discussed earlier, firms have purposely incorporated in jurisdictions with lax or no digital assets regulations and/or supervision. This movement has hurt companies seeking to comply with prevailing regulatory standards. Circle applauds the Board’s efforts to promote comprehensive global regulatory parity and to establish an innovation-focused regulatory framework grounded in vigorous global coordination and enforcement which ultimately can maximise consumer benefit and limit consumer harm.

Additionally, the FSB should clarify the risks for, and responsibilities of, particular actors within a stablecoin arrangement and whether those risks relate to prudential or conduct considerations. For example, Circle disagrees with the FSB’s contention that custodial wallet services create risk *for stablecoin arrangements*.<sup>20</sup> Instead, independent custodial wallet services may create risk *for users*, and they should be regulated not as a service provider to a stablecoin - which exists as an asset, not an entity - but as a consumer-facing financial product. This point emphasises the importance of preserving and promoting the disaggregation of services enabled by public blockchain-based financial services.

### **High-Level Recommendation 3**

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<sup>19</sup> Circle provides more detail about price stabilisation for tokenised cash stablecoins such as USDC and EUROCC in its comment on High-Level Recommendation 9.

<sup>20</sup> Financial Stability Board, *supra* note 17, at 12.

### *General risk management*

Circle strongly agrees that the constituent entities of GSC arrangements should have effective risk management frameworks in place for operational resiliency, cybersecurity safeguards, and AML/CFT measures. Circle also concurs with the FSB’s call for improved liquidity risk management practices. A lack of such risk management, among other failures, appears to have led to the insolvencies of several crypto firms over the past year.

While a rigorous assessment of individuals in management or control positions of constituent entities supporting a GSC arrangement is prudent, Circle notes that it may not be possible for entities to conduct full due diligence on all other entities conducting certain functions of a GSC arrangement. For example, validators of a public blockchain are pseudonymous by default, and major networks are at times not controlled by a single entity or identifiable group of entities.<sup>21</sup> Additionally, validation of a public blockchain is permissionless, which means any individual can join at their choosing.

### *AML/CFT measures*

Appropriate AML/CFT measures consistent with FATF standards are an essential part of any risk management framework. Circle takes its AML/CFT requirements very seriously and conducts blockchain data analytics, in addition to maintaining a strict internal compliance program, to adhere to all applicable AML/CFT laws and regulations under our applicable licences. The open, permissionless structure of public blockchains means that transactions made in payment stablecoins like USDC and EUROCC are currently more traceable than transactions made in the traditional banking sector. Regulatory requirements with the goal of mitigating money laundering/terrorist financing risks should leverage the new opportunities to track and trace criminal activities instead of only applying existing requirements to a new technology.

In that regard, Circle disagrees with the assertion that transactions from and to personal wallets (which the FSB calls “non-custodial”) represent a heightened legal and compliance risk. Around 95% of the 2 million individual wallets on the Ethereum blockchain holding USDC had balances of less than \$10,000, according to Circle’s analysis. This high ratio of low-value individual wallets and relative scarcity of wallets holding more than \$10,000 suggests that: 1) the ability to obscure or wash the proceeds of crime diminishes in relation to the transaction size; and 2) the aggregate money laundering risk – particularly arising from bulk money laundering (i.e. moving >\$10,000) – using USDC remains low despite a large number of users. A separate analysis by blockchain analytics firm Chainalysis suggests that personal wallets are not inherently risky and do not inhibit

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<sup>21</sup> Circle employs a robust risk management and evaluation process when considering the deployment of either of its stablecoins on a new public blockchain, but it is not typically able to, for example, interview key leadership figures involved in the development or administration of a blockchain. USDC is available on nine blockchains as of December 14, 2022.

law enforcement's ability to investigate the illicit use of cryptocurrency.<sup>22</sup> The vast majority of crypto-assets transferred to/from personal wallets come from regulated CASPs and are eventually sent to a CASP. Even the FATF's 2021 Updated Guidance for a Risk-Based Approach to Virtual Assets and Virtual Asset Service Providers acknowledges that data and evidence have shown that personal wallets are indeed not inherently riskier than custodial wallets.

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## High-Level Recommendation 6

Circle affirms the importance of requiring, through regulation, best-in-class data security and data privacy standards for all constituent entities of a GSC arrangement, especially for data that links off-chain identity and on-chain activity. Due to the transparent nature of public blockchains, data leaks and breaches can reveal an individual or company's on-chain net worth and transaction history. This in turn creates valuable data honeypots for criminals, who once in possession of that information, may use it for virtual (phishing, hacking etc.) or physical (robbery, extortion etc.) attacks. Privacy-enhancing technologies may eventually ameliorate these concerns, but data still needs to be protected. Since both private and public institutions have a long history of data leaks and hacks, we encourage the Board to incorporate the principle of data minimisation (e.g., as instituted in the European General Data Protection Regulation) as a benchmark for data risk management. In this context, the FSB should provide further specific guidance on when and how commercial entities and government authorities within its purview should have access to relevant data and information related to GSCs.

When transaction data is exchanged for regulatory reasons, such as in order to comply with the FATF Travel Rule, it should be done in an encrypted and bilateral manner. For instance, Circle is a member of the TRUST framework designed to comply with the Travel Rule.<sup>24</sup> The TRUST network does not centrally store personal data, and it employs end-to-end encrypted, bilateral channels where the receiving entity must prove that it is the owner of the receiving crypto address before customer information is sent.

Circle believes that the notion of a tradeoff between privacy and compliance needs to be dispelled and that both private and public actors should support the development of digital identity tools and international standards. This would aid both the private sector and governments around the world in the detection and reporting of illicit financial activity while preserving end-user privacy. As a result, Circle has also invested resources in developing innovative technology to advance decentralised identity, in part to prevent illicit finance. Circle, in

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<sup>22</sup> See Chainalysis, *How Can VASPs Ensure Travel Rule Compliance on Transactions Involving Unhosted Wallets?*, 28 Jan. 2022, <https://blog.chainalysis.com/reports/travel-rule-compliance-unhosted-wallets/>.

<sup>23</sup> Financial Action Task Force, *Updated Guidance for a Risk-Based Approach to Virtual Assets and Virtual Asset Service Providers*, 28 Oct. 2021, <https://www.fatf-gafi.org/media/fatf/documents/recommendations/Updated-Guidance-VA-VASP.pdf>.

<sup>24</sup> See Circle, *TRUST Expands its Global Footprint and is Now Live Internationally*, 24 May 2022, <https://www.circle.com/blog/trust-expands-its-global-footprint-and-is-now-live-internationally>.

partnership with several other leading CASPs, has published Verite, a set of free, open-source decentralised identity protocols and data models.<sup>25</sup> While Verite is still in its early phases, the decentralised digital identity model will provide verifiable identification that is scalable, easy-to-use, and interoperable across systems, while providing individuals the certainty that only a minimal amount of information is being shared.

### **High-Level Recommendation 7**

Circle supports High-Level Recommendation 7 and agrees that appropriate recovery and resolution plans are a critical part of risk mitigation for those entities constituting a stablecoin arrangement. Likewise, Circle believes that regulators should require stablecoin issuers to maintain segregated accounts for the reserves backing stablecoins. Circle has prepared a recovery and resolution plan to be carried out in the unlikely event of a Circle bankruptcy, maintaining the USDC and EUROCC reserves on a segregated part of its balance sheet for the benefit of token holders. In this way, segregated accounts for reserve funds, coupled with proper recovery and resolution frameworks, are keys to ensuring the continued ownership of the underlying traditional asset by stablecoin holders in the event of an issuer default.

### **High-Level Recommendation 8**

Circle also supports High-Level Recommendation 8 and considers itself to be an industry leader when it comes to transparency and routine disclosures, attestations, and audits. Since the launch of USDC in 2018 and EUROCC in 2022, Circle has published monthly statements of the size and composition of the USDC and EUROCC reserves. These statements have confirmed that the reserve is at least as large as the amount of USDC and EUROCC in circulation, a fact to which a top auditor attests monthly.

Furthermore, Circle clearly publishes terms of use for USDC and EUROCC and the legal rights available to USDC and EUROCC holders on the Circle website.<sup>26</sup> These documents inform users of what they can expect when using a Circle-issued stablecoin for blockchain financial services. In line with the FSB's recommendation, Circle also publishes an "ecosystem" directory that includes, among other information, various software and CASPs that users can use with USDC and EUROCC.<sup>27</sup>

Circle believes that these practices could serve as a guide for the FSB's recommendations concerning transparency and disclosure for other entities.

### **High-Level Recommendation 9**

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<sup>25</sup> See Circle, *Decentralized identity for crypto finance*, <https://www.circle.com/en/verite>.

<sup>26</sup> Circle, *USDC Terms*, last updated 10 Jun. 2022, <https://www.circle.com/en/legal/usdc-terms>; and Circle, *Euro Coin Terms*, last updated 12 Oct. 2022, <https://www.circle.com/en/legal/euro-coin-terms>.

<sup>27</sup> See Circle, *Explore the USDC ecosystem*, <https://ecosystem.circle.com/>.



Given the importance and complexity of High-Level Recommendation 9, Circle has responded in three parts: redemption rights, price stabilisation, and prudential requirements.

### *Redemption Rights*

Requiring stablecoin issuers to guarantee a robust legal claim of redemption is a critical component of ensuring the viability of GSCs and user protection in the event of insolvency of any part of a stablecoin arrangement. Circle agrees with this recommendation and already provides such clarity to USDC and EUROCC holders about their legal claims.<sup>28</sup> However, Circle encourages the Board to permit a tiered redemption model where GSC issuers are only held accountable for redemptions that are customers of the issuer, provided all other token holders have reasonable avenues for timely redemption through other CASPs. This is a more practical framework that additionally reduces the financial stability risk associated with a GSC.

The European Union's existing rules for e-money may provide the baseline for a framework for global stablecoins. According to the E-money Directive in the European Union, an Electronic Money Institution (EMI) can engage a distributor, through a contractual arrangement, to distribute e-money on its behalf.<sup>29</sup> Holders of e-money obtained from a distributor then have a direct redemption claim against these distributors rather than the EMI itself, even as the ultimate legal responsibility remains with the issuer. This model increases competition and consumer choice because users can select from many different e-money distributors instead of being forced to become a customer of the EMI directly. It also reduces operational load and increases operational resiliency of the EMI along with the e-money itself by distributing consumer-facing functions across many different financial institutions.

Some modifications would be needed to adapt the permissioned networks of e-money to the permissionless networks of public blockchains. Particularly in the context of a global stablecoin, the stablecoin issuer cannot maintain visibility into every holder of the stablecoin it issues. Due to the peer-to-peer nature of blockchain transactions, anyone can send anyone else stablecoin tokens, a feature which improves financial inclusion and promotes consumer-beneficial innovation. When assessing the sufficiency of redemption rights for a GSC built on an inherently permissionless system, regulators should not look for contractual arrangements but rather at the *de facto* redemption environment. They should consider the number of CASPs that allow consumers to switch stablecoins for private bank or non-bank money, the performance of the GSC relative to its benchmark on the free market (similar to the basis risk test proposed by the

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<sup>28</sup> See Circle, *supra* note 25.

<sup>29</sup> European Union, *DIRECTIVE 2009/110/EC OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL*, 16 Sep. 2009, <https://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2009:267:0007:0017:EN:PDE>, at 6, saying, "Member States shall allow electronic money institutions to distribute and redeem electronic money through natural or legal persons which act on their behalf."

BCBS), and other factors.<sup>30</sup> Combined with a review of the GSC issuer's recovery and resolution plan, regulators can ensure consistent, predictable consumer redemption even in times of stress.

Circle has pursued a tiered redemption model for the benefit of USDC token holders. A tiered redemption model allows token holders to swap stablecoins for fiat cash with a diversity of consumer-facing financial institutions who subsequently maintain a mechanism of their own to swap users' stablecoins for fiat cash at their choosing. The tiered model is better for token holders, who can choose from a wide range of financial institutions rather than being required to establish a direct relationship with Circle. Simultaneously, the tiered model reduces the buildup of operational risk in Circle itself. USDC is available on a large number of exchanges and can be bought and sold at market price, which almost never diverges from its benchmark of \$1.<sup>31</sup> Additionally, certain CASPs have made their own guarantees that USDC can always be redeemed 1:1 for private money issued by that CASP.<sup>32</sup> Thus, non-Circle customers have ample opportunity to exchange their USDC at par into fiat without having a direct redemption right with Circle.

A tiered redemption model would protect redemption rights for users while ensuring that all components of a stablecoin arrangement are required to safeguard funds and honour redemptions in a timely fashion. Additionally, creating a tiered system would reduce the buildup of systemic risk within the issuer which, in the event of large-scale redemption, would be forced to provide direct redemption to every possible token holder regardless of whether they had been onboarded as a customer. Even under normal conditions, a strict requirement to onboard all customers within a rigid timeline is likely to complicate robust AML/CFT and KYC screening when redemption requests originate from indirect users. In contrast, under existing tiered redemption practices, token holders currently enjoy timely, consistent, par-value exchange at their preferred financial institution while being guaranteed redemption rights by the issuer in the event of any insolvency of the issuer or service provider once the token holder has been successfully onboarded as a customer.

### *Price Stabilisation*

Circle concurs that providing comprehensive and transparent information is critical to maintain a stable, free market value of a GSC at all times, which is a necessary component for a well-functioning GSC that minimises financial stability risk. Circle believes that the best way to ensure such stability is by maintaining high confidence that the stablecoin issuer will always

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<sup>30</sup> The BCBS' basis risk test is an empirical study of the free market price performance of a stablecoin. See Basel Committee on Banking Supervision, *Consultative Document: Second consultation on the prudential treatment of cryptoasset exposures*, <https://www.bis.org/bcbs/publ/d533.pdf>, at 3, 10, and 11.

<sup>31</sup> Circle's internal research shows that USDC would fully pass the BCBS' proposed basis risk test, an indication of a very high level of price stability for a stablecoin. Price data from Coin Metrics, 00:00 UTC settlement time, in a one-year period measured from 13 Sep. 2021 to 12 Sep. 2022. USDC fully passes the proposed basis risk test in other one-year periods as well.

<sup>32</sup> See, e.g., Bitso, *How do USD Stablecoins work in Bitso?*, last updated 27 November 2022, <https://support.bitso.com/hc/en-us/articles/4414977550996-How-do-USD-Stablecoins-work-in-Bitso->.

redeem a stablecoin for its promised value. Trust, transparency, and robust regulatory protections ensure price stability in the free market.

When it comes to asset design, Circle believes that tokenised cash stablecoins are the most transparent and reliable form of stablecoins for maintaining price stability. While some stablecoin issuers may choose to hold riskier assets such as corporate debt, proprietary loans, and commodities, these financial instruments subject the stablecoin to liquidity, market, and credit risk, often when stability is most needed. This is evident in backward-looking data.<sup>33</sup> Likewise, stablecoin issuers should maintain high-integrity business practices that reinforce trust and confidence in the stablecoin. For example, issuers should segregate the reserve assets backing the GSC from their normal business operations. Issuers should also publish monthly statements about the size and composition of the reserves. Thorough, regular disclosures and audits should be required to provide authorities with an understanding of the functioning of the issuer.

#### *Prudential Recommendations*

The FSB rightly highlights the lack of clarity around the treatment of financial (market, credit, liquidity) and operational (smart contract and blockchain) risks as a concern for today's stablecoin arrangements. Circle shares the FSB's focus on a variety of common-sense prudential requirements that should be applied to GSCs, such as liquidity management planning and stress testing. Likewise, as indicated by FSB in its statement that "capital buffers should be consistent with the size of the GSC in circulation and proportionate to the risks of GSC arrangement," Circle agrees that the calculation of an appropriate capital buffer should be consistent with the amount of a GSC in circulation and proportionate to the risks of the GSC arrangement, with the paramount consideration being the risks of the underlying reserve assets.<sup>34</sup>

Circle agrees that the FSB High-Level Recommendations have adequately captured the risks of losses and capital outflows to GSC issuers generally. However, Circle believes the risks present in tokenised deposits are not well-understood to the downside; tokenised deposits present much more risk than tokenised cash backed by HQLAs such as cash and short-duration U.S. Treasuries. In particular, because tokenised deposits inherently have different levels of credit, market, counterparty, and other risks, if tokenised deposits were to ever establish a free market price, they would not maintain strong price stability, and interoperability with other tokenised deposits would be almost impossible. Given tokenised deposits' inherent risk, Circle wishes to stress again that this difference in prudential risk should be taken into account in the FSB's future framework, and Circle cautions that any capital buffer requirements must be properly tailored to account for the reserve assets and systemic risk profile underpinning GSC arrangements.

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<sup>33</sup> See Financial Stability Board, *supra* note 17, at 4-5.

<sup>34</sup> See Financial Stability Board, *supra* note 17, at 21.

Given the low market risk of tokenised cash, non-bank issuers of tokenised cash don't need to hold capital buffers comparable to banks holding fractionally reserved deposits or issuing tokenised deposits. Non-bank GSC issuers that hold reserves of HQLA and cash do not lend their reserves, and they therefore would encounter only market and operational risks while avoiding risks from bad debt – assuming their funds were properly segregated. HQLA reserves also remain more liquid than other assets, such as commercial paper, and require less cushion and/or advanced notice to operate as an acceptable buffer. Regarding the likelihood of a run itself, a recent analysis of USDC found that unlike banks or prime money market funds, the empirical run risk of tokenised cash is very low.<sup>35</sup> Tokenised cash experiences low outflows or net inflows during a crisis, suggesting that customers may look for high quality digital assets during times of distress.<sup>36</sup>

Separately, Circle believes that, as a coordinating body, the FSB's recommendations should both establish the minimum regulatory standard needed to ensure the safety and soundness of GSC arrangements while also discouraging jurisdictions from overlaying complicating and potentially conflicting measures. Failure to do so may lead to jurisdictions with competing regulatory expectations, fragmenting global efforts and incentivising issuers to seek jurisdictions with fewer prudential restrictions. To combat this phenomenon, a future FSB implementation review should include analysis of where local and/or national regulation has gone beyond the FSB's recommendations to create a hostile market environment for GSCs to operate. Examples might include jurisdictions with outright stablecoin bans, caps on issuance and usage, prohibitions on regulated third party financial institutions providing interest on stablecoin holdings, or similar regulatory disadvantages compared with other forms of digital money.

This recommendation dovetails with the FSB's own position that they will “monitor the implementation of the revised recommendations and, by end-2025, undertake, in cooperation with the SSBs, a review of their implementation and assess the need to update the recommendations and/or relevant international standards.”<sup>37</sup> Circle notes that competing regulatory provisions found in the recently passed Markets in Crypto-Assets (EU) legislation are one such example of this conflict. As a result, Circle encourages the FSB to analyse the consequences of these actions on innovation and competition and recommend harmonised rules not only with regards to minimum regulatory, prudential, and governance requirements, but also to excessive and unfair provisions that could jeopardise the FSB's goal of responsible innovation and global, consistent, interoperable markets.

Lastly, the BCBS highlights the importance of “a clearer delineation between risks that would be covered by the operational risk framework versus those that should be captured in credit and market risk frameworks.”<sup>38</sup> Circle supports the direction by FSB to achieve this distinction, such

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<sup>35</sup> Liao, *supra* note 4, at 22.

<sup>36</sup> *Id.*

<sup>37</sup> Financial Stability Board, *supra* note 17, at 10.

<sup>38</sup> Basel Committee on Banking Supervision, *supra* note 29, at 5.

that “authorities should require that GSC arrangements have in place policies that address heightened risks for GSC arrangements, such as operational risks (including fraud and cyber risks).”<sup>39</sup> Circle believes that operational risks must be a consideration for all GSC issuers, and note that such considerations already feature heavily in its own due diligence processes. Circle conducts thorough operational due diligence both before issuing USDC on specific blockchains, and it has successfully integrated with nine blockchains to-date in line with these high standards.

Unlike some market participants, USDC and EUROCC are not tied exclusively to a specific exchange or distributed ledger, and much of USDC’s circulating supply is issued following public token standards such as Ethereum’s ERC-20 standard. Thus, the FSB should urge authorities to conduct a thorough review of the technical architecture underlying GSCs, and discourage the issuance of GSCs on platforms that can be easily halted by a single entity.

13. Do you have comments on the key design considerations for cross-border cooperation and information sharing arrangements presented in Annex 2? Should Annex 2 be specific to GSCs, or could it be also applicable to crypto-asset activities other than GSCs?

Circle has no comments in response to Question 13.

14. Does the proposed template for common disclosure of reserve assets in Annex 3 identify the relevant information that needs to be disclosed to users and stakeholders?

Circle supports the standardisation of stablecoin reserve asset disclosures. Since the launch of USDC and EUROCC, Circle has published monthly statements about the size and composition of their reserves.<sup>40</sup> Recently, Circle began publishing the CUSIP identifiers of the specific U.S. Treasury Bills it holds as part of the USDC reserve in order to provide the public with an even greater level of transparency than before.<sup>41</sup> Circle believes that thorough, regular disclosures build trust in USDC and EUROCC and ensure a stable foundation for blockchain-based financial services.

Additional granularity in the proposed template, perhaps instituted as subsections of asset categories, would help token holders further understand the reserve composition of various stablecoins. For example, as a modification to asset category 3, token holders would benefit from understanding whether a reserve consists of U.S. government money market fund shares or prime money market fund shares. Additionally, as a modification to asset category 4, it would be beneficial for stablecoin issuers to break down reverse repo assets by counterparty; for example, lending in the U.S. Federal Reserve reverse repo market carries lower credit risk than corporate

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<sup>39</sup> Financial Stability Board, *supra* note 17, at 16.

<sup>40</sup> See Grant Thornton, *supra* note 11.

<sup>41</sup> Circle, *Providing Greater Transparency*, 14 Jul. 2022, <https://www.circle.com/blog/providing-greater-transparency>.

reverse repo markets. Finally, disclosing the type of government debt, including maturity, would meaningfully help token holders understand the quality of reserves backing a stablecoin.

15. Do you have comments on the elements that could be used to determine whether a stablecoin qualifies as a GSC presented in Annex 3?

The FSB has outlined the general qualities that seem appropriate to consider when determining whether a stablecoin qualifies as a GSC. However, Circle believes that the FSB should provide significantly more detail regarding what exact qualities — and to what extent — the Board will consider before designating any asset a global stablecoin. The classification should be quantitatively derived, similar to how globally systemic important banks are designated.

The FSB should consider an indicator-based measurement approach, similar to the one used to assess the systemic importance of G-SIBs, for the determination of GSCs.<sup>42</sup> A “GSC score” would be a helpful tool to determine whether a stablecoin qualifies as a GSC and to determine if a non-GSC has the potential to become a GSC.

Separately, Circle opposes extending the High-Level Recommendations’ scope to include “stablecoins with the potential to become GSCs.” Doing so seems to render the GSC distinction unnecessary.<sup>43</sup> If a stablecoin does not meet the criteria of a GSC, then it definitionally does not present sufficient risk to warrant GSC-level regulation and oversight. It may be important to track such stablecoins to potentially prevent risks if they do become GSCs — and a GSC score would be useful in such instances — but they should not be obliged to the same regulatory scrutiny as GSCs. It may be appropriate to establish tiers of stablecoins that carry different regulatory requirements on the constituent entities of GSC arrangements based on the stablecoin’s systemic importance, but that has not been proposed by the FSB.

Regarding the treatment of GSCs as Financial Market Infrastructures, the distinction between entities that perform different functions within a stablecoin arrangement is critical. As explained above, Circle is not responsible “for the transfer of coins between or among participants” or “for validating transactions” as the issuer of USDC. Thus, regulating each entity in a stablecoin arrangement such that they are responsible for each activity within a stablecoin arrangement may be very challenging, if not impossible. For further discussion please refer back to Circle’s response to Question 12, High-Level Recommendation 1.

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<sup>42</sup> Basel Committee on Banking Supervision, *Global systemically important banks: updated assessment methodology and the higher loss absorbency requirement*, <https://www.bis.org/publ/bcbs255.pdf>, at 5-8.

<sup>43</sup> Financial Stability Board, *supra* note 17, at 8.

## **Conclusion**

We appreciate the FSB's time and attention to compiling clear and comprehensive guidance regarding the regulation and supervision of crypto-asset activities and "global stablecoin" arrangements. The High-Level Recommendations are an important regulatory action that will bolster the strength and transparency of the financial sector. Circle appreciates your time and consideration and welcomes the opportunity for further engagement.