July 15, 2020

Via Electronic Mail
Secretariat to the Financial Stability Board
Bank for International Settlements
Centralbahnplatz 2
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Switzerland
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Re: Addressing the regulatory, supervisory and oversight challenges raised by "global stablecoin" arrangements

Ladies and Gentlemen:

Circle Internet Financial Inc. ("Circle") and Coinbase, Inc. ("Coinbase") welcomes the opportunity to comment on the Consultative Document prepared by the Financial Stability Board ("FSB") entitled "Addressing the regulatory, supervisory and oversight challenges raised by 'global stablecoin' arrangements" ("Consultative Document"). We also appreciate the active engagement of the FSB in the ongoing discussions among digital asset services providers, other financial institutions and industry groups on this topic and hope that our views will be taken into consideration in crafting appropriate regulatory approaches within jurisdictions and internationally on global stablecoin ("GSC") arrangements.

Introduction

Circle is a global financial technology firm that enables businesses of all sizes to harness the power of stablecoins and public blockchains for payments and commerce worldwide. Circle maintains money transmitter or similar licenses in 47 states, an E-Money Issuer license in the United Kingdom and active throughout the EEA, and a Class F ("Full") digital asset business license in Bermuda. Circle was the first company in the world to receive a virtual currency BitLicense from New York State and the first digital currency company awarded an E-Money Issuer license from the U.K.

Founded in 2012, Coinbase is a fully licensed and regulated money services business in the United States, with offices in Japan, Singapore, the United Kingdom, and Ireland. Coinbase offers products and services to buy, sell, and manage digital assets for more than 35 million individual investors, active traders, businesses, and institutions in over 100 countries in the world trading over $220 billion worth of assets. Coinbase is a nationally regulated digital asset exchange in the United States, and maintains money transmitter or similar licenses in 42 states and two territories, including both the BitLicense and a limited purpose trust company charter in

New York State. Internationally, Coinbase is authorized as an Electronic Money Institution by the Financial Conduct Authority in the United Kingdom and Central Bank of Ireland.

In 2018, Circle and Coinbase pioneered the introduction and launch of a consortium and set of technology and policy standards for global stablecoins, the Centre Consortium (“Centre”). Centre is a member-based consortium of financial institutions that provides an open source technology, compliance and policy framework for full-reserve asset-backed stablecoins based on major fiat currencies. Centre Consortium and its members have introduced the fastest growing compliant and fully reserved US Dollar stablecoin, USDC. Hundreds of fintech companies now support USDC in their products and services, including digital wallets, exchanges, custodial services, savings and lending products, games and other payments and finance applications. With over $2.3B USDC issued to date, USDC has seen over $40B in transaction volume and settlements on public blockchains. In recent months, due to increasing global demand for digital dollars, USDC has experienced significant growth, with a 75% increase in USDC in circulation from pre-pandemic levels.

Comments

The Consultative Document (i) maps the vulnerabilities arising from various stablecoin functions and activities against the relevant regulatory authorities, tools and international standards; (ii) analyses potential risks to financial stability arising from stablecoin arrangements; and (iii) outlines ten high-level recommendations to advance consistent and effective regulation, supervision and oversight of GSC arrangements as well as effective cross-border cooperation and information sharing. The Consultative Document poses twelve questions and invites comments to its analyses and recommendations. Our response addresses each question.

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

   Stablecoins represent a major opportunity for innovation in payments and digital commerce globally. Global stablecoins, especially those backed by reserve currencies or other stable central bank money, and issued by regulated and licensed financial institutions and digital payments intermediaries, are laying the foundation for programmable money and a more efficient, global and inclusive financial system.

   We agree that the FSB has identified the key characteristics that distinguish stablecoins from other crypto-assets. We feel the most critical differentiators are the existence of stabilization mechanisms, which for example may include the rights to fully reserved assets, and the functions of issuance, redemption and stabilisation of value, including importantly how the reserve is managed.

   We also agree that the FSB has identified that the potential reach and adoption across multiple jurisdictions differentiate GSCs from other stablecoins. We highlight the following key characteristics and differentiators of GSCs from other stablecoins when it comes to potential reach and adoption:

- **The strengths of the characteristics of the GSC arrangement** (please see our response to question 4 below).

- **The stability of the backing asset.** Backed stablecoins are subject to the same volatility and risk associated with the backing asset, so for example GSCs backed with reserve currencies (e.g., US dollar) or other trusted and widely used global currencies maximize potential reach and adoption.

- **The accessibility to purchase and redeem.** GSCs with lower purchase and redemption thresholds clearly broaden reach and adoption whether the GSC is used primarily as a means of payment or store of value. In addition, the availability of multiple on-ramps (e.g., credit cards, debit cards, ACH, SWIFT wires, etc.) increases accessibility and utilization.

- **The demonstrated widespread utilization of GSCs across, not only multiple jurisdictions, but also numerous industry sectors.** Digital currency on the public network of the internet has the potential to make the movement of value a ubiquitous free service the same way that the online data exchange of content is today. Financial technology companies such as Circle expand reach and adoption by providing platform services to businesses that allow them to integrate stablecoins into their own applications and customer experiences. Real world "payroll/compensation" use cases include a global consulting firm that pays remote-based consultants in digital dollars, supported by digital wallets, avoiding currency exchange rates and costly bank transfer fees, and another firm that pays its call center labor force in near "real-time" micropayments, as the employee performs and earns those wages. Common use cases abound in other areas: foreign remittances, supply chain, online marketplaces, DVP settlement, and peer-to-peer payments are among the most well-known. The widespread utilization of a stablecoin across multiple industry sectors should be considered a key definer of a GSC compared to other stablecoins with narrow use cases or in niche markets (for example, stablecoins with large market caps but whose primary use is to support trading pairs on a crypto exchange).

- **The liquidity of the GSC.** The market capitalization and circulating supply of a stablecoin, relative to other stablecoins, are key indicators of a GSC's reach and adoption. Readily available and straightforward mechanisms for individuals and businesses to convert to and from the stablecoin on a 1:1 basis are also important to their liquidity.

- **The nature of the stabilization mechanism.** Asset-backed stablecoins that are redeemable in fiat money or even commodities may have greater potential reach and adoption than seigniorage-styled (not backed) algorithmic stablecoins. The asset-backed GSC is, in the mind of the user, comparable and/or a substitute to the familiar backing asset, so utilization does not require a big intellectual jump. Purchase and redemption are straightforward. Algorithmic stablecoins, on the other hand, do not offer the same familiarity; and, their stabilization mechanism is likely opaque to the user, thus limiting their potential reach and adoption.

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.**

   We believe the FSB has identified the range of stabilisation mechanisms that are characteristics of global stablecoin arrangements.

3. **Does the FSB properly identify the functions and activities of a stablecoin arrangement (Table 1)? Does the approach taken appropriately deal with the various degrees of decentralisation of stablecoin arrangements?**

   We agree with the FSB's identification of the functions and activities of a stablecoin arrangement and that they have been described with the appropriate level of detail and granularity.

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

   In question 2 above, we highlighted several differentiators of GSCs from other stablecoins such as the stability of the backing asset, the efficacy of a GSC's widespread utilization across multiple areas of commerce, GSC liquidity, and the potential "reach and adoption" advantages of fiat-backed GSCs compared to less "retail-familiar" algorithmic stablecoins.

   In addition to coin distinctions, there are numerous criteria for the GSC arrangements which affect the GSC's effectiveness in enhancing the provision of financial services and the risks to financial stability. Virtually all of these criteria relate to trust and transparency of the GSC by all stakeholders, including licensing authorities, regulators, and consumer and business users of the GSC.

   - **Licensing and regulatory regimes.** We believe authorities should consider whether the operators of each GSC arrangement function and activity are licensed and operating in highly regulated jurisdictions, or unlicensed and operating in less regulated jurisdictions. Clearly, operators who are duly licensed and already subject to strong and comprehensive regulatory oversight bring more stability and transparency and less risk to the GSC arrangement than those which are not.

- **Transparency and frequency of audits.** Operators of functions and activities should be subject to frequent and, as appropriate, publicly verified audits, such as in the case of information security, compliance or maintaining adequate reserves. For example, there are numerous examples of stablecoins whose reserve management was not transparent and ultimately failed to maintain their pegs. (A highly publicized incident involved the USD stablecoin Tether, whose price in 2018 dropped to as low as $0.86, when it was learned that as much as 30% of the funds backing Tether were no longer liquid and available to the issuer because they were seized by government authorities as part of a documented money laundering scheme.)

- **Reserve model.** GSC arrangements with fully reserved (1:1) asset backing, in particular with a highly restrictive reserve investment policy based on holding cash and short-term government treasury bonds, provide more stability, as funds held on behalf of customers are held in segregated accounts not used for operations and are available for redemption by customers at any time. Notably, such GSC arrangements are MORE secure than the fractional reserve model of retail and commercial banks, whose depositors bear the risk of company-specific failure and macroeconomic systemic shock.

- **Information security.** We believe authorities should consider whether the operators within the GSC arrangement have a history of secure systems and an absence of breaches, or compromised and hacked systems, and are subject to annual cyber security audits and held to strong information security standards.

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

We agree that the FSB has comprehensively identified the potential material risks to financial stability arising from certain GSC arrangements (section 2.1 of the Consultative document). However, while the intent of this section 2.1 is to identify all potential risks, it will be important for policy makers and regulators to understand that (i) these are inherent risks, and (ii) the design and characteristics of certain GSC arrangements, with controls which are embedded into the design, effectively eliminate or significantly reduce residual risk.

For example, the potential instability to the financial system of a single financial institution playing multiple roles of issuance, wallet provider, and custodian/trustee of reserve assets is negligible or virtually non-existent in a GSC arrangement with multiple issuers, wallet providers, etc. and further if the reserve assets are held in bankruptcy-remote segregated accounts.

Another example, identified through the FSB's scenario analysis, is the risk of wealth effects which could be sizable enough to affect spending decisions and economic activity. This risk is pronounced with more volatile GSCs which could produce significant fluctuations in users' wealth, but this risk is significantly minimized if the GSC arrangement's backing asset is a more stable reserve asset such as USD.

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?**

   We believe the FSB has identified and appropriately analyzed the vulnerabilities arising from various stablecoin functions and activities in Annex 2.

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

   We believe the FSB has identified and appropriately scoped the potential regulatory authorities, tools and international standards applicable to GSC activities in Annex 2. We want to highlight two areas that we believe merit clarification and/or further consideration noted under the activity of "Establishing rules governing the stablecoin arrangement": (i) "Ability to require a GSC arrangement to be governed in a manner that facilitates effective regulation and supervision, <u>including by prohibiting fully decentralised systems</u>," and (ii) "Governance, internal control and risk management requirements <u>applicable at the level of the entire GSC arrangement</u>" (underlines added).

   Regarding (i) above, we believe the FSB has an opportunity to clarify what the FSB considers to be a "fully decentralised system." Referring to "Table 1: Functions and activities in a stablecoin arrangement," it is conceivable that each activity (column 2) could be performed by a different operator - and therefore be "decentralised." But, notwithstanding that these operators are separate legal entities, they could be required to be bound by legal agreements, including in accordance with the requirements of the GSC arrangement's governing body, and further subject to the regulatory oversight appropriate for their type of activity and inclusive of cross-jurisdictional cooperation. So, outright prohibition would appear to be unduly burdensome and unnecessarily restrictive.

   In addition, given that GSC arrangements may support stablecoins on open blockchain networks, the activity of "exchanging a stablecoin with other crypto-assets" is something that could happen in open commerce (for example, between a buyer and seller on a crypto exchange) and would be a transaction not involving the operators within the GSC arrangement. We assume that, although this activity is listed in Table 1, the FSB does not consider this type of activity to fall within the scope of "decentralised system." As such, the FSB should consider clarifying what activities are in scope in the context of statements regarding "decentralised systems" and "decentralisation" as they pertain to GSC arrangements.

Regarding (ii) above, we believe the FSB has an opportunity to clarify and confirm, if FSB so intended, that governance, internal control and risk management requirements would and should be applied to each operator within the GSC arrangement as appropriate and proportionate to the risks of that operator's activity. Further, the GSC arrangement should have governance which requires such operators to comply with all applicable laws and, in addition, meet standards expressly required to participate in the GSC arrangement.

As the statement reads now, one might interpret it to mean that policy makers should consider imposing comprehensive governance, internal control and risk management requirements at the level of the entire GSC arrangement - i.e., equally applicable to all operators within the GSC arrangement and beyond what is appropriate and proportionate to the operators based on their activity.

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

The FSB has identified the risks of a GSC arrangement operating across borders and reorganizing or relocating its activities as a challenge to the effectiveness of regulation, supervision, oversight and enforcement at jurisdictional levels. We generally agree with the characterization of this as an inherent risk. But, we believe that this risk can be meaningfully addressed through cross-jurisdictional coordinated rules and standards around GSC arrangement governance, such as the types of entities that could be involved in the arrangement, as well as the protocol for validating transactions, and the manner in which the stablecoin is stabilized.

For example, Centre requires its members which comprise the GSC arrangement to be financial institutions that are appropriately regulated and supervised. In most cases, the home jurisdiction also requires these entities to be licensed (for example, as money transmitters). Practically speaking, these entities cannot reorganize or relocate their activities without violating the requirements of its governance body and its supervisory and licensing authorities. Although regulatory arbitrage is a theoretical inherent risk, so long as there is close coordination and common standards for GSC arrangement governance across jurisdictions and such entities are adequately supervised, residual risk should be meaningfully reduced.

The FSB also notes that a stablecoin issued in one jurisdiction may be easily accessible online to users in another jurisdiction. We think this very attribute goes to the core of the immense, transformative value of GSCs and their ability to advance financial inclusion. Policy makers should be watchful to avoid GSC arrangements becoming overly constrained by country perimeters, so as not to undermine the very benefits GSCs provide.

GSCs can be used on public blockchains, supported by digital wallets, and combined with innovative uses of payment platforms and smart contracts to pioneer new forms of digital commerce; improve costs, transparency and convenience for billions of consumers; and go that "one last mile" to reach many who do not have access to the traditional banking system. For many, internet access and mobile wallets are easier to obtain than bank accounts, and vast parts of the world may benefit from transactions denominated in GSCs.

Jurisdictional authorities should ensure effective GSC arrangement governance and oversight, through common standards and cooperation, without stifling nor constraining the reach and adoption of GSCs through open networks and across borders.

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 believe the proposed recommendations are appropriate and proportionate with the inherent risks. As stated elsewhere in our response, we encourage authorities to implement these recommendations with a commitment to cross-jurisdictional cooperation and an informed view as to the specifics of GSC arrangements, which will differ by design and the risks they pose.

   a. **Are domestic regulatory, supervisory and oversight issues appropriately identified?**

      We believe the FSB has identified the appropriate domestic, regulatory, supervisory and oversight issues.

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

      We believe the FSB has identified the relevant cross-border regulatory, supervisory and oversight issues, as noted in both our response to question 8 above and as discussed below. We highlight the following factors as notable considerations to inform and drive the degree and nature of cross-border cooperation, which as we have stated elsewhere is critical to foster the reach and adoption of GSCs while ensuring risks are appropriately managed.

- **Use and systemic importance.** We believe the FSB has identified in Annex 5 the potential elements that could be used to determine whether a stablecoin qualifies as a GSC. We highlight the very high bar for systemic in the approaches by the Basel Committee on Banking Supervision ("BCBS") and the Principles for Financial Market Infrastructures ("PFMI"), which the FSB uses for reference. The BCBS, for example, designates a firm as globally systemically important when it "threatens the stability" of a given country. The PFMI refers to a financial market infrastructure's "lack of substitutability in the markets they serve" as a key factor, which is consistent with the FSB's element of "available alternatives to using the GSC as a means of payment at short notice" (Annex 5).

  We recommend that the FSB include in its recommendations that relevant authorities across jurisdictions mutually agree on the principles, criteria and, where possible, measurable thresholds at which point a stablecoin is deemed to be a GSC and, as a result, the GSC arrangement subject to additional regulatory requirements. We believe such a commitment will help drive discussions among authorities towards their respective and joint priorities and concerns. This recommendation is also fundamental to providing market confidence and needed clarity to GSC arrangements, supervisory and regulatory authorities, wholesale and retail GSC users and consumers, and all industry participants regarding stablecoin and GSC requirements.

- **Governance.** We agree with the FSB that the location of where the decisions across the GSC arrangement are made and where policies are set and enforced are all relevant to cross-border regulatory, supervisory, and oversight issues. As stated in our response to question 4, GSC arrangements may be differentiated by governance, including licensing, the level of regulatory oversight and the frequency and transparency of audits, and such factors should be considered in cross-border regulatory reliance and cooperation.

- **User facing elements.** The FSB has identified the location of wallet and platform providers and whether they operate cross-border as relevant to cross-border regulatory, supervisory, and oversight issues. We want to clarify that to achieve widespread reach and adoption, stablecoins may be operated on public blockchain networks and utilized in numerous innovative ways, with numerous user facing elements, but the providers of these innovations should not necessarily be considered part of the GSC arrangement.

For example, USDC operates on the Ethereum network and conforms to the Ethereum ERC20 token standard, meaning that USDC can be used on any exchange that supports the standard and held in any ERC20-compatible digital wallet or transferred to another wallet that supports ERC20 tokens. While it may be appropriate for any given ERC20-compatible digital wallet provider to be subject to regulations and oversight in their jurisdiction(s) of operation, bootstrapping all those wallet providers as de facto participants of the GSC arrangement and therefore subject to any additional regulatory, supervisory and oversight requirements for the GSC arrangement is on its face impractical, unmanageable and not proportionate to the risks. **We believe the FSB does not intend "user facing elements" to be so broadly defined and respectfully request that the FSB further clarifies the scope.**

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

We believe the FSB's recommendations appropriately address and allow for potential developments and future innovation. As the FSB notes, "Public policy goals are meant to be technology neutral. The recommendations therefore aim to promote a regulatory, supervisory and oversight framework that is technology neutral and focuses on underlying activities and risks, thereby accommodating innovation in the provision of financial services as technology changes."

We believe that by applying regulatory, supervisory and oversight approaches and cross-border mechanisms, grounded in an assessment of a GSC arrangement's economic function and the principles of "same business, same risk, same rules," authorities will minimize the risk of regulatory overreach and the unintended consequences of stifling innovation.

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

We think that the recommendations are appropriate for systemically important digital assets, whether stablecoins or other crypto-assets. But it is important to note that to be systemically important would require the satisfaction of numerous criteria, as the FSB identifies in Annex 5 of the Consultative Document and we address in our response to question 9(b) above.

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

As stated in our response to question 9(b) above, **we recommend that the FSB add as a recommendation that relevant authorities across jurisdictions mutually agree on the principles, criteria and, where possible, measurable thresholds at which point a stablecoin is deemed to be a GSC and, as a result, the GSC arrangement subject to additional regulatory requirements.** We believe such a commitment will help focus discussions among authorities on their respective and joint priorities and concerns. This recommendation is also fundamental to providing market confidence and transparency to GSC arrangements, supervisory and regulatory authorities, wholesale and retail GSC users and consumers, and all industry participants regarding stablecoin and GSC rights and obligations.

We do not believe that any other new recommendations should be added or existing recommendations removed, other than to the extent, if any, such recommendations may be affected by the considerations we have shared in our responses.

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

We want to highlight one cost-benefit consideration, relating to the immediate world crisis brought on by COVID-19. This crisis has brought on business failures and personal hardships and simultaenously elevated and accelerated the importance of global connectivity through technology. We echo the opinion recently expressed by Benoit Coeure, Head of the Bank for International Settlements Innovation Hub: “A rapid shift towards digital payments can improve cost, transparency and convenience for billions of consumers. International cooperation is needed to support technological capacity in developing economics, ensure interoperability between national systems, enhance cross-border payments and remittances, and support financial inclusion - in short to avoid spatial and social fragmentation.”

We have cited throughout this letter the risk of over-regulation and the concomitant costs of stifling innovation and constraining the very benefits that GSCs offer global commerce. We passionately believe that by expanding access to digital dollars and other reserve currency-backed stablecoins, through a system that has the reach and accessibility of the internet, companies can partner with regulators and supervisors to create a fundamentally more open, inclusive, efficient and integrated world economy. In light of the global COVID-19 crisis, this opportunity is magnified and the need intensified. The cost of policy makers and authorities moving too slowly will only impede and frustrate the ability of those who are impoverished or in less developed markets and thus outside of the financial system to benefit from this transformation. We think the FSB has an opportunity to minimize this risk generally by promoting progress in GSC reach and adoption and specifically by actively and enthusiastically recommending and facilitating coordination and cooperation among jurisdictional policy makers and authorities.

* * *

Circle and Coinbase appreciate the opportunity to respond to the issues raised in the Consultative Document and your consideration of the views expressed in this letter. We would welcome the opportunity to provide further detail on any of the matters discussed herein. If you have any questions or need further information, please contact us at mdubose@circle.com and Amy Luo at amy.luo@coinbase.com.

Sincerely,

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Amy Madison Luo

Amy Luo
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