



Via electronic mail

December 15, 2022

Secretariat of the Financial Stability Board
Bank for International Settlements
Centralbahnplatz 2
CH-4002 Basel
Switzerland
fsb@fsb.org

Dear Sir/ma'am,

Subject: Comments on the FSB consultative document titled “Regulation, Supervision and Oversight of Crypto-Asset Activities and Markets”

CoinDCX welcomes and appreciates the opportunity to provide comments on the consultative document prepared by the Financial Stability Board (“FSB”) titled “Regulation, Supervision and Oversight of Crypto-Asset Activities and Markets” (the “Document”).

At the outset, we appreciate the opportunity to provide our comments in relation to this important framework which may have a wide ranging impact on the crypto asset ecosystem. The efforts of the FSB to propose a framework for the international regulation of crypto-asset activities is highly applauded. We also appreciate the active and consistent industry engagements undertaken by the FSB to devise this framework.

Introduction to CoinDCX

CoinDCX is one of India’s leading platforms engaging in crypto-assets. Established in 2018, we currently manage crypto assets for more than 15 Million+ individual investors, active traders, businesses, and institutions. We are a company registered in India and employ more than 700 people, across offices in Mumbai, Bengaluru, New Delhi, and remotely from various parts of the country. CoinDCX has launched an education initiative, DCX Learn, which offers in-depth crypto-assets courses for free. We have also set up CoinDCX Ventures, established with the objective of investing in and supporting the responsible development of the Web3 ecosystem.



In 2021, CoinDCX became India's first crypto unicorn and is currently valued at USD 2.15 billion. The company is backed by some of the most reputed investors in the world such as Bain Capital Ventures and Polychain Capital.

CoinDCX is also one of the founding members of the Bharat Web3 Association, an industry body uniting leading members from the Indian Web3 ecosystem. The Association is committed towards navigating seamless policies for the Web3 space by raising awareness, conducting research, establishing industry standards, nurturing India's Web3 talent pool, protecting consumers' interests, and encouraging stakeholder dialogue.

Our Comments

- 1. Cooperation at its core:** A key component of the framework proposed by the FSB in the document is cooperation. It identifies the need for cross-border cooperation in order to arrest regulatory arbitrage, evasion, and to effectively regulate the space.

In addition to advocating for cross border cooperation, the Document also identifies the need for cooperation between international organisations. In accordance with the FSB's mandate, the document focuses solely on regulatory, supervisory and oversight issues relating to crypto-assets. It therefore does not adequately address all other potential risk categories such as money laundering, terror financing, data privacy, cyber security, consumer and investor protection, competition policy, taxation etc.. Additionally, while it addresses the technology and movement of crypto assets across and within borders, we feel extra emphasis on how international cooperation can help bring the dispersed economic communities that make up the backbone of crypto assets into the regulatory fold is required. We laud the FSB's efforts in working closely and cooperating with international organisations such as the International Monetary Fund, World Bank, the Basel Committee on Banking Supervision, the Committee on Payments and Market Infrastructures, and the Financial Action Task force to ensure that the work underway is coordinated and mutually supportive.

The crypto assets ecosystem also involves a wide variety of activities that may fall under the competence of different regulatory authorities, within the same jurisdiction. This

merits cross sectoral regulatory coordination. The Document also acknowledges and highlights the need for such cooperation.

Given the cross-border nature of crypto-assets, we appreciate the FSB's overall focus on cooperation. The implementation of effective policies in this space not only requires cooperation between nations, but also between regulators within the same jurisdiction, and international organisations working to address potential risks associated with different aspects of crypto-assets. The Indian Finance Minister has also often reiterated the need for international cooperation to regulate crypto-assets. The G20 Summit and the FSB present a unique opportunity to establish a platform for constructive dialogue and develop consensus on the issue of effectively regulating this space.

- 2. Setting out high-level and flexible objectives:** In the Document, the FSB has focussed on setting out key objectives that an effective regulatory and supervisory framework should achieve. However, it has also laid a specific emphasis on ensuring that its recommendations are high-level and flexible so that they can be incorporated into a wide variety of regulatory frameworks.

We at CoinDCX appreciate this approach. However, in order to facilitate the overarching objective of promoting a global standard and minimising the scope for arbitrage and evasion, we suggest that the FSB should develop certain minimum policy *and* technology standards that countries across the globe undertake to adopt. The standards may be categorised in different buckets representing the nature of regulatory measures that a country wishes to adopt, For instance, the authorities of a nation may choose to take a conservative stand and prohibit certain or all crypto-asset activities, while some may choose to take a moderate stand and regulate them. It is suggested that a set of minimum standards is developed for each of these approaches and countries may adopt the minimum standards set out for the approach they wish to adopt. Common aspects such as definitions, minimum data collection and real time monitoring infrastructure, the mandate to establish an intersectional body in each jurisdiction to regularly evaluate the crypto ecosystem, and a nudge to develop self-regulatory authorities etc. may be standardised.

While prescribing these standards, it is also important to account for the different infrastructure, enforcement, and administrative capabilities of different nations. The G20 Summit has undertaken to focus on the concerns of developing countries and the global south. This presents an opportunity to develop a global framework that is equitable and can be enforced by developed and developing nations alike.

3. **Same activity, same risk, same regulation:** The FSB has explicitly adopted the principle of “technology neutrality” and “same activity, same risk, same regulation” in designing its recommendations. This comes across specifically in two instances. *First*, when the Document compares the activities undertaken in the crypto ecosystem with those conducted in more established and familiar markets; and *second*, when the Document differentiates between crypto-assets, stablecoins and global stablecoins.

The application of principles such as “same activity, same risk, same regulation” and “tech neutrality” is key to achieve a level playing field. These principles are often associated with the need to move from an entity- to an activity-based approach to financial regulation, which would mean imposing similar requirements upon all active players in a particular market segment, regardless of the legal nature, economic organisation, or decision making hierarchy of those entities. This functional perspective towards policy has historically been the force behind the regulation of the larger legacy financial ecosystem. It prescribes that where banks and fintech firms vie for the same customers, provide similar services, and take similar risks, they should be similarly regulated. The adoption of the “same activity, same risk, same regulation” principle - specifically to draw comparisons between the crypto-ecosystem and the traditional finance space - not only helps articulate the nuances of the crypto ecosystem in terms that are familiar, but it also helps establish the risks and hence the regulations needed in the space.

We at CoinDCX believe that applying these principles and identifying similarities between the crypto ecosystem and more traditional systems has its merits in terms of spreading awareness and understanding the space. However, we caution the use of broad strokes to create analogues between the nascent crypto asset ecosystem and legacy finance that would obfuscate the nuances idiosyncratic to the industry. It is imperative to acknowledge that crypto assets are not only unique in several ways, but

also rapidly evolving in multiple directions. They stand at a novel intersection between finance and technology and often do not fall within conventional corporate frameworks. Moreover, crypto assets are part of a crucial trend transforming the internet from a collection of virtual representations of physical spaces and information to a unique space that stands on its own, that follows rules specific to it. Therefore, while regulations may take inspiration from the rules applicable to traditional financial markets, they must also be tailored to the crypto space so as to ensure that innovation is not hampered and competition is not stifled. Consensus has now consolidated around the fact that crypto assets will play a pivotal role in the development of the next iteration of the internet. Therefore, no restriction (to the greatest extent possible) should be imposed on the underlying technology. Notably, such restrictions are also unlikely to be effective given the borderless nature of the ecosystem (once again alluding to the fact that the internet is a space of its own slowly detaching itself from geographical states and borders). Accordingly, a risk based functional approach, wherein inspiration is drawn from the traditional financial market while regulating the crypto ecosystem; and a distinction is drawn between how stablecoins and other crypto-assets are regulated is critical. Regulation must also be grounded in granular distinctions between intermediaries and service providers operating in the crypto-assets ecosystem, based on the activity they perform and the consequent risk they undertake.

- 4. Responsible innovation:** In the Document, the FSB on the one hand highlights the need for regulatory, supervisory, and oversight issues relating to crypto-assets while on the other hand iterates promoting safe innovation. A balance between encouraging innovation and effective, efficient regulation, with the latter being a function of many variables, is critical in this regard.

In the pursuit of robustness of regulation, providing a neutral level playing field for all participants while at the same time fostering an innovative, secure and competitive environment, could very well prove to be the inflection point in the quest to deploy technological tools to solve challenges of tomorrow. Promotion of regulatory sandboxes/safe harbour provisions could be a step in the right direction to provide an environment of balanced innovation and regulation. Further, establishment of acceleration centres to empower and support the developer community in respective

jurisdictions coupled with infrastructure support could be the way forward. Such provisions may feature in the minimum standards that the FSB prescribes.

5. **Disclosure and Transparency:** In the Document, the FSB has rightly highlighted the need of crypto-asset market participants to be fully transparent and reliable. It is necessary to enhance the transparency and reliability of data on crypto-asset activities to address the data gaps and arrest arbitrage.

The Document also mentions the cases of Celsius Network and Voyager Digital, wherein, there was exemplified risk transmission within the crypto-asset market due to significant liquidity and maturity mismatch (in the case of Celsius) and interconnectedness (in the case of Voyager). Such corporate mismanagement issues can further be linked to the recent FTX collapse.

It has been heartening to note that the ecosystem at large is also aligned with FSB's vision on transparency. For instance, key players have voluntarily undertaken to publish their Proof of Reserve ("PoR") and transparency reports. This iterates the industry's intent to develop a transparent and verifiable auditing procedure. We, as CoinDCX are also committed to the cause and have released our PoR audit report, which is made using the 'Merkle Tree' technique in a cryptographic process. Other disclosure requirements may include the mandate to publish a white paper in a certain format along with each new token project, as prescribed under the proposed EU regulation. We believe that it is imperative to standardise disclosures, given the unique nature of these borderless assets. Accordingly, featuring such requirements in the minimum standards discussed in the previous sections is suggested.

We at CoinDCX, have always endeavoured to go above and beyond the minimum standard to run a safe and wholly compliant crypto-assets enterprise. We conduct ourselves so as to provide a positive example, both to other players in the ecosystem, and the government, with the overarching objective of developing trust between key stakeholders. Aside from domestic regulations, we follow global best practices in transaction monitoring and KYC/AML, and deploy significant resources to work with global leaders to ensure that our processes are of the highest standard. At the same time, we are, and always have been willing to update our processes based on any new information or mandate received from the relevant authorities,



and are always more than happy to engage in transparent conversation. We strongly believe that constructive dialogue and outreach will play a pivotal role in addressing the policy challenges in this complex and dynamic space. We appreciate the opportunity to provide comments on the Document and will be happy to shed further light on any of the views expressed in this letter. If you have any questions or need further clarification on our submissions, please feel free to reach out to us at kiran.vivekananda@coindcx.com

Your Sincerely,

A handwritten signature in blue ink, appearing to read "Kiran Vivekananda", with a stylized flourish at the end.

Kiran Vivekananda

Chief Policy Officer, CoinDCX