FSB July 2020 - Consultation on Global Stablecoins
Closing Date: 15th July 2020
https://www.fsb.org/2020/04/fsb-consults-on-regulatory-supervisory-and-oversight-recommendations-for-global-stablecoin-arrangements/

Dear FSB,

We wish to respond to your consultation on Global Stablecoins. As a community of projects building tools and frameworks within the decentralised finance (DeFi) space we believe it would be beneficial for you to understand our motivations and interpretations on the various stablecoin initiatives that exist. Many of our projects use stablecoins or the concepts of stablecoins within their construct.

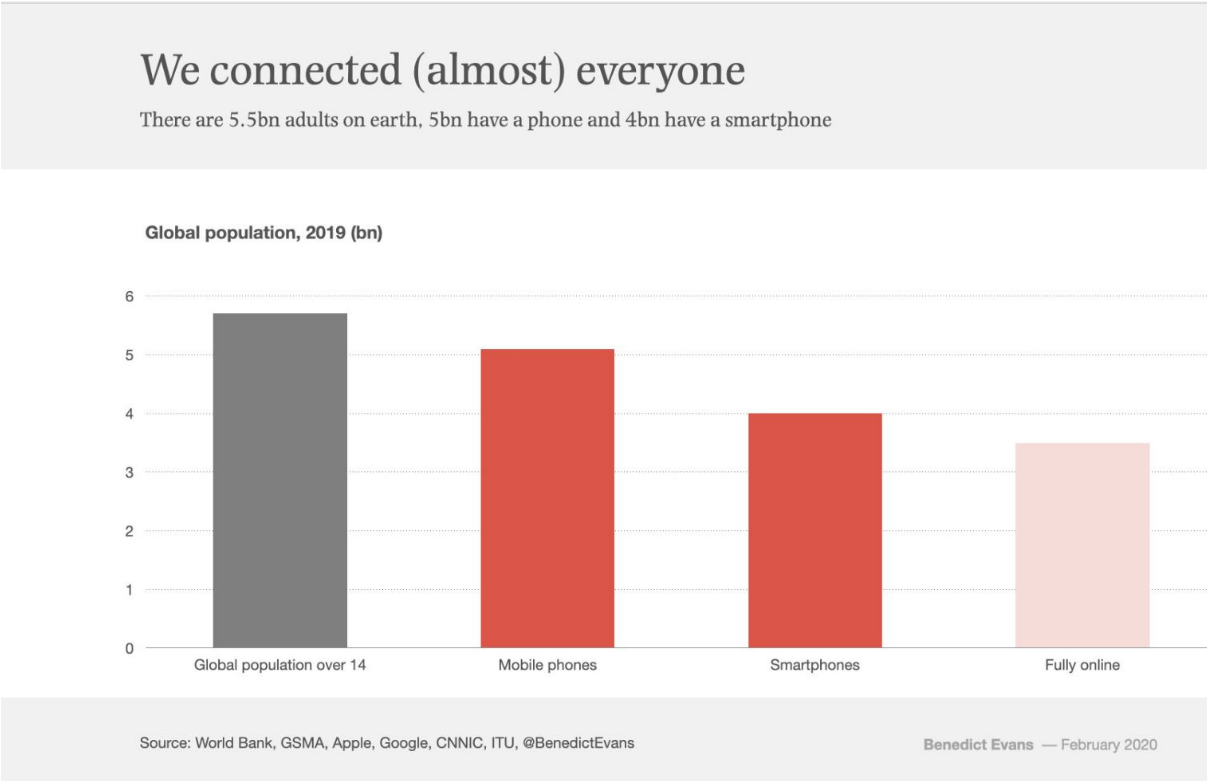
Stablecoins divide even the most ardent supporters of DeFi, with many in the community believing that there can be no such thing, whilst others recognise that disassociating price volatility from functionality on a platform that uses digital assets will certainly see the narrative change and possibly mature.

DeFi is an opportunity for the world to unleash a platform for financial services, as VoIP unleashed a platform for communication. At this time, DeFi is being used by a limited number of people and is highly experimental, the objective is to build a framework of services and an ecosystem that relies on no single central party and enables anyone to engage and use the tools available. This is critical to enable a system that the entire world can use. The costs of compliance have prevented banks from exploring services for the long tail of users and there are many use cases that the existing financial system are looking to incorporate into their platforms. We recognise that the conversation of compliance and DeFi is just beginning and we hope we can find a path that does not distract from the goal of an open decentralised system to empower all 7.5bln souls on the planet.

The concepts of centralisation are frequently discussed amongst the DeFi community, the space has grown up with a “Not your keys” mantra. Whilst this is empowering and can enable individuals to become “bankless” or “self sovereign”, banks have emerged within communities for centuries, and have evolved from co-operatives to the universal system we have today. Yet even within the highest levels there is mistrust and even more so following the collapse of Lehman Brothers and more recently Wirecard.

Certain jurisdictions are subject to monetary policy that makes even bitcoin look stable, the current political and economic conditions that exist have left the local communities reliant upon the world's reserve currency, the US Dollar. Indeed, even institutions and countries fear certain FX fluctuations and have, since the end of the second world war, utilised a similar concept through the creation of the EuroDollar.

However, the birth of the internet has seen the world change rapidly. The monopolies that have formed have provided great value to those that are online today. Almost everyone is connected. Sharing information, pictures and connecting with like minds despite geographical distance.



These monopolies however also wield great power, seeing and observing the information flows between people, tracking location, knowing when we wake and sleep and who we meet with. All through the data or metadata of our connected lives. We have also been subject to the manipulation of this data and users of this technology and are living with the fallout of that reality today. Now these same organisations want to take our money under their control.

Decentralised finance is pushing back, trying to build open systems where no single entity is in control and society has a say in what takes place. Regulations are a reflection of the society at large, if a society rejects such regulations the supporting parties are pushed out and new words are written. GDPR and the CCA have been created in light of these organisations' treatment of our data.

We have solid regulations in place today for money and financial instruments, only in exceptional circumstances could these be argued that by using code instead of paper the underlying asset is something different. These exceptional circumstances are when something new is created, such as native digital tokens or over collateralised digital assets such as Maker’s DAI.

It is in this light that we respond to your questions. We believe that the creation and control of value should exist within the existing regulated space, and the new global borderless space that is the decentralised web or web3.0 should be allowed to continue its experimentation. We believe there is power in the world recognising a true global digital asset that might enable and empower at every level of society.

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

- Global stablecoin (GSC)
  A stablecoin with a potential reach and adoption across multiple jurisdictions and the potential to achieve substantial volume.

- Stablecoin (or coin)
  A crypto-asset that aims to maintain a stable value relative to a specified asset, or a pool or basket of assets.

Differentiating between the above definitions is not helpful unless there is clarity on what would trigger the step between a stablecoin to a global stablecoin. For algorithmic stablecoins that are built using collateralized smart contracts, these are global in nature as anyone is able to create these tokens using smart contracts. This consultation feels most appropriately positioned to explore the boundaries of stablecoins that can be created with tangible assets and that can align to existing forms that are controlled by a custodian or other centralized governance structure or entity.

The world needs an asset where people can engage with the cutting edge of technology without fear that they will be marked or classified as illicit actors due to experimentation.

Recognising stablecoins and defining them as a recognised instrument will be a useful step, even more so if the instruments are recognised consistently globally.

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.

Our focus is on the algorithmic methods of achieving stability of an asset. There could be many different ways to calculate this and whilst the asset backed approach and algorithmic approaches are being explored today, it's possible that new ways of stabilizing assets could be found in the future, any new methods would likely be a derivative of the algorithmic set perhaps taking inputs from different, as yet unexplored, uncorrelated sources.

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

We agree fully permissionless ledgers or similar mechanisms could pose particular challenges to evidencing accountability and governance, but banning these methods is not a progressive step. We ask that we find an appropriate tone and language to communicate the risk and uncertainty in this space. Experimenting with decentralised finance and emerging cryptoassets is certainly not suitable for everyone and headline returns can paint a misleading picture without the facts to substantiate the true risks. These risks need to be put into context however as a citizen of G20 members Argentina, Turkey or India might prefer holding an asset that was significantly less volatile than their local currency.

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

We believe the Global nature of the narrative is a distraction, and that the most significant risk is that the governance of a GSC is centralised with an organisation that holds shareholders interests first, over the users, the people and citizens of the world. Centralised governance where the opportunity to influence and participate in setting the future direction of an asset is a significant risk.

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 disagree with the statements put forwards as they are somewhat simplistic and believe that more considered research and exploration should be undertaken. The concepts of Bancor that Keynes raised in the 1940's have been raised again, we would support further discussion on this approach and an investigation into the possibility of operating a digital currency similar to the SDR, under control of a decentralised governance model which the internet could now enable, we believe this could go some way to mitigating the Triffin dilemma.

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 agree and recognise the first two vulnerabilities mentioned, those being the risk of a failure in duration, quality, liquidity and concentration of the assets behind any stablecoin; and the governance structure, operations and ledger operations. These risks, are risks that exist today and have been tested in today's systems. Further work is required to explore the resilience of such systems and to explore if they might be shifted to an anti fragile system.

We disagree with the third vulnerability of the security and the ability to store private keys and exchange coins. There is significant work being carried out in this area and the products of many decades of high end cryptographic procedures are now being operationalised, which reduce the risk of loss down to impossible odds. We would also highlight that the nuclear missiles of the UN Security Council Permanent Members are secured using the same procedures. We urge you to explore the functions around SSS[1], BLS[2] and MPC[3] technologies to satisfy yourselves this is no longer a material risk.

We do not share the analysis of FATF with regard to systemic weaknesses of the AML / TF controls from peer-to-peer transactions. We note the FATF draft report to the G20 in June 2020[4] identified the option for jurisdictions to deny licenses for VASPs that build upon the decentralised, non-custodial technology (Section 72).

To support this approach is to disregard the tangible benefits DeFi products provide for society and the integrity of the market - i.e. control over their own assets without relying on a trusted third party. Further, there are other methods to monitor peer-to-peer activity, not least the transparency of all blockchain transactions and behaviour. Finally, any attempts to release funds into fiat requires KYC. Together these mitigate the AML risks without such blunt interventions.

The FATF framework from its existing recommendations is sufficient to achieve the regulatory objectives. It's disappointing that FATF has been swayed by such obvious attempts by the existing incumbents to protect the old system and try and smother innovation in this space.

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

Regulatory bodies are woefully under resourced to address the complexities of this new space. GSC operators are hiring big names to give comfort to the governments and regulators that they will do the right thing, the new regulatory world needs to move and adopt a bitcoin mantra. Trust but verify.

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

We fully support the objective to align to achieving common regulatory outcomes across jurisdictions and reducing opportunities for cross-sectoral and cross-border regulatory arbitrage, and enabling appropriate regulation and supervision of GSC arrangements as a whole.

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?

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[1] Shamir's Secret Sharing

[2] Boneh–Lynn–Shacham

[3] Secure multi-party computation

[4] VIRTUAL ASSETS – DRAFT FATF REPORT TO G20 ON SO-CALLED STABLECOINS

a. Are domestic regulatory, supervisory and oversight issues appropriately identified?
Issues on the topic of stablecoins and global stablecoins should be focused and aligned to global rather than domestic positions

b. Are cross-border regulatory, supervisory and oversight issues appropriately identified?
Cross border global issues need to be addressed, but more than that the supervisory teams must have an eye on the future as new models are emerging at a rate that is unprecedented today. The onset of AMM tools and AI interacting with these new programable forms of assets is critical. A total rethink of who should occupy the seats at the table is needed as those at the table today have significant gaps in their knowledge and understanding of what is to come next.

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

No. The UK's FCA has taken some proactive measures to look to the future by establishing a public private forum on AI and machine learning / selection.

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

We believe that the existing system is under extreme stress and that the banks and institutions have failed society already. Focus should be on building something that enables all levels of society and corporations should not be given preferential rights over citizens.

A stablecoin that is correctly structured and transparent should be able to provide all sides with the appropriate confidence and capabilities.

11. Are there additional recommendations that should be included or recommendations that should be removed?
It is important that sweeping positions on open-source technology or code not be restricted to those that can meet certain criteria. Germany's position to regulate crypto-assets as financial instruments is out of step with the rest of Europe and puts innovative startups in a difficult and uncertain position.

12. Are there cost-benefit considerations that can and should be addressed at this stage?
Stablecoins look to provide confidence and protect value relative to a perceived position in time. All fiat has demonstrated a lifecycle and the history[5] of money is a fascinating tale.

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https://en.wikipedia.org/wiki/Debt:_The_First_5000_Years#:~:text=Debt%3A%20The%20First%205%2C000%20Years%20is%20a%20book%20by%20anthropologist,of%20human%20life%20in%20society.

Creating digital representations of fiat today could have significant effects on the operations of financial institutions today.

- Assets could settle on a T+0 basis, removing counterparty risk to zero and releasing billions of dollars in locked up capital requirements.
- A trust but verify approach to the banks could see them demonstrate to the regulators that they have the correct reserves in place and that the resolution requirements are being met.
- Digital stablecoins will enable billions of people to store and save wealth at near zero cost, today they must carry any wealth with them or hope the paper notes they hide don't get eaten by rats[6].

We must move in a considered way towards this new world, regulations have a danger of setting the minimum threshold and stifling innovation, we urge you to let innovation continue so we can focus on the right level not the minimum level.

[6] Book Review: Before Babylon, Beyond Bitcoin: From Money that We Understand to Money that Understands Us by David Birch