

Gruppe Deutsche Börse

Comments on FSB´s Consultative Document

“Addressing the regulatory, supervisory and oversight challenges
raised by ‘global stablecoin’ arrangements”

Frankfurt am Main, 10 July 2020

I. General remarks

Deutsche Börse Group (DBG) welcomes **FSB's on-going efforts to further enhance market stability and market integrity** by addressing the regulatory, supervisory and oversight related challenges which are, for example, raised by global stablecoin arrangements.

We also acknowledge **FSB's valuable work on the DLT topic**, of which we are pleased to be a part of. We are outspoken proponents of **high, globally agreed upon common standards** that avoid market fragmentation **and ensure market integrity**. As an operator of several "traditional" trading venues, clearing houses (CCPs) and central securities depositories (CSDs) Deutsche Börse Group has a long experience in building markets and implementing several safeguard mechanisms on these markets.

From our point of view, it is time to **bring the crypto-asset ecosystem to the same level of regulation as the rest of the financial system**. "Same business, same risks, same rules" should apply as a general principle, while maintaining and not compromising "tech-neutrality", as the lessons learned from the financial crisis 2008/9 are still important, even if the technology changes. Therefore, we are in favor of the approach undertaken by the FSB, especially referring to already existing international standards to deal with global stable coins at a national level and during cross-border activities.

Given that the application of the technology in financial markets is still in an early stage, we would ideally be **in favor of a very close global alignment of regulators** when addressing the vulnerabilities of the different activities of GSC arrangements.

Therefore, we welcome the opportunity to comment on FSB's consultative document "Addressing the regulatory, supervisory and oversight challenges raised by 'global stablecoin' arrangements".

If you have any questions about our comments, please do not hesitate to contact us.

II. DBG key messages

Classification of crypto-currencies/(global) stablecoins necessary: we consider crypto-assets to be a sub-category of digital assets. While crypto-assets are sub-categorised between utility-, securities- and payment-assets. Payment assets (e.g. stablecoins) or “digital money”, have different sub-classes, depending on certain features like the openness of the network and governance structure used (public or private ledger, permissioned or permissionless), the backing or the reserve (without backing or asset backed) and the issuer.

Categorization of stablecoins/global stablecoins: a possible distinction to the following factors: 1) Number of currencies (coin itself and/or reserve pool) 2) Number of participants (reach) 3) Volume(s) of coins(s) issued. The insolvency remoteness of the backed assets’ (“reserve”) will be a crucial factor for investors.

Authorization and supervision of companies issuing (global)stablecoins: to address the corresponding risks, the issuer and/or system operator should ideally be authorized and supervised entities. A strong rulebook should be required including clear and transparent rules for the management of the reserve (e.g. fiat-money only, no cross-currency risk etc.). Further, regulators should ensure that any issuer of a GSC is qualified to operate such a scheme via assessments on the management body of the GSC issuer.

Financial stability has to be ensured: we agree with the mentioned risks to financial stability, but we would add the fact that the value and stability of a fiat currency (or even multiple fiat currencies) and the respective central bank(s) in charge might be affected (e.g. by inflation).

Use trusted third parties to tackle vulnerabilities: GSCs need to prove the existence and amount/value of reserves they undertake at all times reliably and continuously – for this purpose specific trusted third parties with a kind of notary functions could be used.

Use (I)CSDs to reduce systematic risk: assets pegged to stablecoins should be ideally safe-kept/in custody with (I)CSDs instead of the issuer, in order to secure investor protection and financial stability, similar to funds. (I)CSDs are already following the PFMI standards and national/regional regulations and are well established tools to avoid the mentioned risks and could fulfill these functions also in the realm of stablecoins.

Presented high level recommendations: we would agree with the recommendations, but also see the need for a potential revision/detailing of these recommendations according to the results of the legislative processes at the national/regional level in the near future.

Stablecoins desirable in the wholesale area: it would be advisable to enable innovation in the wholesale area, which is more contained/secure/regulated, than stablecoins with a global reach predominantly targeting the retail sector. Where companies can test their use-cases and get experiences, this will enhance efficiency gains for the system (machine-to-machine payment; industry 4.0).

III. Comments in detail

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

In general, we agree with the proposed distinction, but we would like to highlight the need to focus even more on the issuer of any token to assess the associated risks.

From our point of view, digital payment assets (payment tokens) or “digital money” in general, have different subcategories, depending on certain features like the openness of the network and governance structure used (public or private ledger, permissioned or permissionless), the backing or the reserve (no backing or asset backed) and the issuer. This would result in the following classification (illustrative):

- a) Crypto-currencies: native tokens which have no issuer, usually running on a public/permissionless ledger; example: Bitcoin
- b) Stablecoins: issued by a private non-financial company, backed by asset(s), on a private or public ledger; example: Libra
- c) Digital bank money: issued by financial institution with banking license, additional backing with assets is optional, usually on a private/permissioned ledger; example: JP Morgan Coin
- d) Central Bank Digital Currency: issued by central bank

This categorization is important, as the issuers are regulated and overseen in different ways. They also have different experiences and roles within the financial systems. Therefore, the issuer-dimension has to be more prominent considered regarding the respective vulnerabilities of (global) stablecoins.

Question 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.*

From our point of view, the described stabilization mechanisms are sufficient.

Question 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?*

From our point of view, the presented list of functions and activities is sufficient.

However, we see an additional point: considering the different functions and similarities with other “payment systems or financial services or products” (p. 8), we see that also similar risks

may arise (insolvency, bankruptcy of the issuer, conflict of interest of the issuer ...). In order to avoid risk concentration with the issuer of (global) stablecoins, it should be recommended that not all functionalities are performed by one actor, i.e. issuer (issuance, notary function, marketing, selling, safe keeping, custody, asset-management etc.).

Therefore, those assets pegged to stablecoins should be ideally safekept/in custody with (I)CSDs, in order to secure investor protection and financial stability, similar to funds. (I)CSDs are already following the PFMI standards and national/regional regulations and are well established tools to avoid the mentioned risks and could fulfill these functions also in the realm of stablecoins.

Question 4: *What criteria or characteristics differentiate GSC arrangements from other stablecoin arrangements?*

While we agree with listed factors, we would propose to focus on the following criteria to distinguish stablecoins from global stablecoins: number of currencies included (coin itself and/or reserve pool); number of participants and volumes of coins issued as well as the underlying assets' insolvency regimes.

To address the corresponding risks, the issuer and/or system operator should ideally be authorized and supervised companies. A strong rulebook should be required including clear and transparent rules for the management of the reserve (e.g. fiat-money only, no cross-currency risk etc.).

Additional requirements for the issuer and/or manager of the reserve should be: Assets of the reserve should be kept at a central bank (cash) or regulated/supervised institutions (CSD, custodian); assets of the reserve should be highly liquid, with limited market and credit risk; prudent risk parameters should be applied for the reserve; e.g. composition of reserve (cash vs. securities), concentration risks, definition of volume caps per currency, ratios of asset classes amongst each other; if reserves in cash, then ideally held with central banks; if with commercial banks, then risk diversification required i.e. limited amount per bank. To address specific risks of stablecoins and global stablecoins a limitation in the geographical spread through underlying regional networks might be helpful.

Simplified, one could reduce a possible distinction to the following factors: 1) Number of currencies (coin itself and/or reserve pool) 2) Number of participants (reach) 3) Volume(s) of coins(s) issued. The insolvency remoteness of the backed assets' ("reserve") will be a crucial factor for investors.

Questions 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 would agree with the mentioned risks to financial stability, however we would add the fact that the value and stability of a fiat currency (or even multiple fiat currencies) and the respective central bank(s) in charge might be affected (e.g. by inflation).

Questions 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 would agree with the mentioned vulnerabilities, further vulnerabilities might be: so called “airdrops” as a receiver problem, programming of the smart contracts and the question of liability within permissionless blockchain networks.

Further GSCs need to prove and guarantee the existence and amount/value of reserves they undertake at all times reliably and continuously – for this purpose specific trusted third parties with a kind of notary functions could be used

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

From our point of view, the presented list of tools and standards seems quite comprehensive.

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

From our point of view, the presented characterisation of cross-border issues is fine.

Question 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?*

- a. *Are domestic regulatory, supervisory and oversight issues appropriately identified?*
- b. *Are cross-border regulatory, supervisory and oversight issues appropriately identified?*
- c. *Do the recommendations adequately anticipate and address potential developments and future innovation in this sector?*

We would agree with the recommendations in general. But as different jurisdictions on different levels are already working on future legal frameworks, we see the need for a potential revision/detailing of these recommendations according to the results of the legislative processes.

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

From our point of view, (global) stablecoins for wholesale should be treated the same way. The only difference is that generally speaking wholesale customers are experts and are aware of the potential risks associated with GSC compared to retail customers and would therefore require “less” protection than retail customers.

As stablecoins for wholesale purposes are “injected” into already existing legal structures (e.g. banking/FMI rules), we would suggest recommending minor necessary adjustments on how to include stablecoins.

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

We would agree with the list of recommendations and think that no recommendation should be removed. We would recommend to add one additional recommendation that regulators should ensure that any issuer of a GSC is qualified and suitable to operate such a scheme. This could be ensured by conducting fitness and propriety assessments on the management body of the GSC issuers, which would ultimately ensure trust in the GSC and could enhance the stability of operations.

For other types of crypto-assets, e.g. security assets, the existing PFMI and national rules should apply as well to ensure the principle of “same business, same risks, same rules”.

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

From our point of view, it would be advisable to enable for innovation in the wholesale area, which is more contained/secure/regulated, than stablecoins with a global reach predominantly targeting the retail sector. When companies can test their use-cases and get experiences, this will enhance efficiency gains for the system in general (machine-to-machine payment; industry 4.0).