



15th December 2022

SENT VIA EMAIL: fsb@fsb.org

To whom it may concern,

Re: FSB Consultation on International Regulation of Crypto-Assets Activities

GBBC Digital Finance (“**GDF**”) supports international cooperation efforts to create mutual standards of regulation for crypto-asset activities. GDF considers it imperative that jurisdictions share a common taxonomy regarding the crypto-assets ecosystem. A shared framework will help ensure a financial stability of the market as well as allow for a coherent, cross-border regulatory oversight that assures cooperation between global standards setters, national authorities and regulators with the nascent global digital / virtual asset industry. GDF finds that such collaboration is crucial for both guarding against potential financial stability risks in the market as well as supporting responsible innovation.

In light of recent events, GDF wants to reaffirm the importance of sound governance principles. As the leading global crypto, digital assets and blockchain members’ association, GDF highlights the necessity of members’ adherence to global best-practice codes of conduct and standards, and their cooperation with policymakers, regulators and the wider market.

About GDF

GDF is a not-for-profit industry body that promotes the adoption of best practices for crypto and digital assets, and digital finance technologies through the development of conduct standards, in a shared engagement forum with market participants, policymakers and regulators.

Established in 2018, GDF has convened a broad range of industry participants, with 150+ global community members - including some of the most influential digital asset and token companies, academics and professional services firms supporting the industry.

The GDF Code of Conduct (the “**Code**”) is an industry-led initiative driving the creation of global best practices and sound governance policies. GDF is informed by close conversations with regulators and developed through open, inclusive working groups of industry participants, legal, regulatory and

compliance experts, financial services incumbents and academia. The principles set out in the Code undergo multiple stages of community peer review and open public consultation prior to ratification.



The input to this response has been curated through a series of discussion and roundtables and GDF is grateful for all of its members who have taken part.

As always, GDF remains at your disposal for any further questions or clarifications you may have and we would welcome a meeting with you and our members to discuss these matters in more detail.

Yours faithfully,

Lavan Thasarathakumar
Director of Government and Regulatory Affairs, GBBC Digital Finance

GDF Statement in Response to the Consultation

GDF supports the Financial Stability Board's (the “**FSB’s**”) overall aim to address the vulnerabilities of the crypto-asset ecosystem through co-ordinated regulatory action. The proposal rightly identifies matters such as proportionality in regulation, flexibility for domestic authorities and the need to support responsible innovation. However, GDF is conscious that the consultation paper is quite high-level and as such leaves room for further discussion on the development of the details. As a result, GDF, on behalf of its members, is submitting its recommendations for the consideration of the FSB.

GDF welcomes the FSB’s analysis on the potential risks arising from crypto-asset activities and finds them to be sufficiently comprehensive. Nevertheless, GDF encourages further cooperation between policymakers, regulators and the digital assets industry to ensure that this is assessed on a regular basis and any future risk is avoided through a mutual dialogue. The digital assets market would benefit from a constant re-evaluation at an international level of the opportunities and risks associated with the market. In light of this, GDF proposes a collaborative regulatory model that provides a regular forum for both industry and regulators to convene, identify, discuss and agree on potential risks. The Financial Action Task Force’s approach is an example of such an initiative, in which throughout an annual process starting in 2017, the industry and regulators come together to identify and calibrate market risk for the digital assets market. An adoption of a similar approach would be beneficial to ensure market stability and stronger cooperation. GDF are at the FSB’s disposal to help facilitate this platform.

With regards to placing additional requirements for Global Stablecoins (“**GSCs**”), GDF agrees that it is sensible to set out further obligations for GSCs that implicate enhanced financial stability concerns. When stablecoins are used as a means of payment or store of value, they carry with them greater risks to the payments network and therefore the regulations imposed on them should be proportionate to that risk. The additional requirements for GSCs include comprehensive governance, risk management, data protection, as well as compliance with domestic authorities requirements, which members support.

Concerning the classification of GSC and different types of crypto-assets, GDF finds that where there is quite a high level in determining what will be classified as a global stablecoin, and therefore be systemically important, there could be varying thresholds across different jurisdictions leading to inconsistent designations with some stablecoins being considered global stablecoins in some jurisdictions, but not in others.

GDF members noted that the sentiment of the proposed framework for stablecoins is that all stablecoins have the potential to become systemic to global financial markets. This is unusual and members suggest that the FSB promote the development of a quantitative approach when defining systemic stablecoins so that regulated entities understand clearly when they meet a threshold that requires additional oversight.

The FSB Consultation gives sensible recommendations concerning the financial stability risk. GDF supports an approach in which stability risks are addressed proportionally by authorities after an

evaluation of the interconnectedness between crypto-assets and the wider financial system. Moreover, it finds that the FSB has taken the right approach in addressing stability risks posed, while at the same time allowing for sufficient flexibility at the domestic level and making sure that responsible innovation is not curtailed.

With regards to accurately characterising the functions and activities within the crypto-ecosystem that may pose financial stability risk, GDF notes the unique challenges that Decentralised Finance (“**DeFi**”) can bring and therefore the novel approaches that need to be explored. DeFi is often categorised similarly to ‘normal’ crypto-asset activities in areas such as governance, accountability and compliance. However, due to the decentralised nature of such entities, this might not be feasible. GDF is open to engage further with the FSB to help address these technical differences between centralised and decentralised digital assets and how the same regulatory outcomes can be achieved. At the request of the GDF Regulator-Only Forum, GDF convened members to set up a DeFi knowledge series to help regulators better understand how DAOs operate and what a regulatory node could look like. A similar series can be curated for the FSB.

GDF members have called for coherence and cooperation between different international regulatory standards, similar to the principle “same activity, same risk, same regulatory outcome”. GDF welcomes a more granular differentiation that takes into account the existing regulatory frameworks for digital assets and those that are in the process of being formed to achieve appropriate outcomes. This is particularly significant in the classification of different types of intermediaries and service providers. In the proposal, there seems to be no clear differentiation between types of intermediaries or service providers. GDF welcomes an approach that mirrors the proportionate regulatory response based on the European Union’s Markets in Crypto Assets Regulation (“**MiCA**”). GDF would encourage a similar categorisation that follows the crypto-asset service provider (CASP) regime introduced by MiCA, in which there is a distinction on how responsibilities apply to specific ‘low-risk’ intermediaries and service providers.

Furthermore, GDF generally supports the work of the International Organisation of Securities Commission (“**IOSCO**”) in developing global minimum regulatory standards for Virtual Asset Service Providers (“**VASPs**”), as they relate to market integrity and retail investor protection. Recent events have highlighted that VASPs must adhere to requirements regarding reserves and as such GDF welcomes the efforts made by policymakers and the industry to improve transparency of reserves to restore trust in the sector. As Affiliate members of IOSCO, GDF is supportive of the 2030 Roadmap and are involved in the two working groups on crypto and digital assets and decentralised finance.

GDF submits that robust risk management and conflict of interest rules are key for players that operate multiple functions including trading, custody and derivatives. To support this, GDF together with its members, has created its Codes to help the industry understand and stay compliant with global best practices and sound governance principles. Proper supervision to oversee implementation and application of rules are a priority over a potential break up of a firm’s activities.

Concerning cross-border cooperation, to ensure compliance with crypto-asset regulation, GDF finds that it is key to establish a level playing field between onshore licensed entities and offshore players.



Our members support authorities' use of technology-based detection and investigation techniques, and additional powers to effectively curb illegal online conduct and increase cross-border cooperation with foreign authorities.

All in all, GDF welcomes this consultation as there is a consensus amongst members that digital assets and their associated technologies offer immense possibilities to create more efficient and effective payments systems and provide enhanced stability to our global financial markets

GDF supports the FSB's call for a global approach to regulating crypto assets. However, members encourage the FSB to support flexibility and tailored regulatory regimes for digital assets rather than adopting a 'one-size-fits-all' approach, recognising the benefits of different regimes covering different types of entities depending on the activity conducted. In this way, governments can promote optionality for consumers through market competition among financial service providers.

GDF looks forward to working together with the FSB and its members in the development of globally consistent regulatory frameworks for the crypto and digital asset industry. In anticipation of these rules, GDF together with its members will continue to develop best practices and sound governance codes and remain at your disposal.