

December 15, 2022

Rupert Thorne  
Acting Secretary General  
Financial Stability Board, Basel

By email: [fsb@fsb.org](mailto:fsb@fsb.org)



Dear Mr. Thorne,

### **Financial Stability Board consultations on global stablecoins and crypto-assets**

The Institute of International Finance (**IIF**) welcomes the Financial Stability Board (**FSB**) consultative reports on global stablecoins (**GSCs**) and crypto-assets (**CAs**) dated October 11, 2022.<sup>1</sup>

We commend the FSB for tackling these important issues in a timely way. We agree that these issues have become pressing in view of the collapses of some major projects in 2022, ongoing instability in digital asset markets, and significant investor losses.

At the same time, we advocate for a measured approach that does not unduly restrict the ability of regulated financial institutions to prudently engage in CA activities, such that associated risks will be subject to robust sound risk management, capital and liquidity regulation, and ongoing supervisory oversight.

We welcome the consultative nature of the process the FSB has instigated to address these issues. The IIF has been closely involved in these deliberations, including through our response<sup>2</sup> to the FSB's first consultation on GSCs in 2020, our convening of a roundtable of IIF members with the FSB on August 23, 2022 to discuss these topics, and our joint industry submission to the Basel Committee on Banking Supervision (**BCBS**) on bank exposures to CAs of September 30, 2022.

We strongly agree with **technology neutrality** as a guiding principle for regulation here. As the FSB recognizes, this may require clarifying guidance or extending existing regulatory scope to address the specificities of a particular technology. New technology does not avoid the need for guardrails to manage product or liquidity risks, for example, which regulated firms already control for.

We would make additional observations on **articulation and scope** of the regimes:

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<sup>1</sup> FSB (2022), [Review of the FSB High-level Recommendations of the Regulation, Supervision and Oversight of “Global Stablecoin” Arrangements – Consultative report \(GSC consultative report\)](#); FSB (2022), [Regulation, Supervision and Oversight of Crypto-Asset Activities and Markets - Consultative document \(CA consultative report\)](#); FSB (2022), [International Regulation of Crypto-asset Activities: A proposed framework – questions for consultation \(Consultation questions\)](#)

<sup>2</sup> IIF (2020), [Addressing the regulatory, supervisory and oversight challenges raised by “global stablecoin” arrangements](#), July 15.

- **tokenized deposits** are one place where extensive existing regulatory frameworks cover risks intended to be addressed by the FSB frameworks under consideration. Tokenized deposits are different from GSCs or CAs and need to be distinguished as such;
- generally, we feel the relationship between the two regimes (for CAs generally and for GSCs) requires clarification through significant **deduplication and alignment**;
- reference to “**potential**” **GSCs** creates considerable uncertainty, and we feel should be removed, without prejudice to the role of supervisors in monitoring developments;
- we largely leave issues regarding **DeFi, DAOs and NFTs** to further consideration by workstreams currently underway elsewhere; and
- the FSB should clarify that the CA and GSC regimes are not intended to apply to **books and records** systems using DLT or blockchain infrastructure, including internal Treasury systems covering multiple affiliates within a financial institution group.

The principle of “**same activity, same risk, same regulation**” in this work has been widely recognized; however, we would add the nuances that understanding “same regulation” as meaning “**same regulatory outcome**” can be more useful. Different regulatory mandates may be engaged; the magnitude of the risk may be different even if the activity and the nature of the risk is the same; and distinguishing between the risks under assessment is important (for instance, product risk vs. operational risk) as the same activity executed in a different manner operationally may translate to different operational risk (possibly less risk), while maintaining the same product risk. Operational risk should be tied to a product, and not assessed as a blanket penalty for use of a particular technology.

We also suggest **doing no harm**, e.g. by not creating new sources of regulatory arbitrage within the regulatory perimeter, and **fostering responsible innovation** as important principles to guide regulation in this space.

Lastly, we would stress the importance of an approach to regulation that recognizes the **dynamic nature** of this asset class and advances a framework designed to evolve in line with the evolution of the asset class and CA markets.

In **Annex 1** we provide (at the start of the respective sections) some general comments on the consultation topics and on the two proposed regimes, and detailed answers to the consultation questions published. In **Annex 2** we provide some observations and suggestions relating to the wording of specific recommendations.

The IIF and its members stand ready to engage in additional discussions and consultations on these topics, or to clarify any aspect of our submission.

Yours sincerely,



Jessica Renier  
Managing Director, Digital Finance



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Managing Director, Regulatory Affairs

## Annex 1

### GENERAL

#### Preliminary remarks

- Recognizing there remain differences in the maturity level of various jurisdictions' regulatory frameworks for these assets to be worked out, some additional specificity will likely be required over time to facilitate consistent implementation of high-level FSB guidelines across jurisdictions. Guidelines that are too broad can present challenges to interpretation and operationalization by regulators, and uncertainty for firms. Reference to “potential” GSCs is one such place that leaves considerable uncertainty.
- That said, too much specificity can unnecessarily restrict existing jurisdictional frameworks.
- Generally, we feel the relationship between the two regimes (for CAs generally and for GSCs) is confusing and requires clarification. If they are both to apply to GSCs, there needs to be significant deduplication of the many recommendations which are closely analogous, but which contain subtle differences. If they are to separately apply, the language needs to be carefully conformed to eliminate unintentional differences. See further our answer to question 2 below.

#### Answers to specific consultation questions

1. Are the FSB's proposals sufficiently comprehensive and do they cover all CA activities that pose or potentially pose risks to financial stability?

- The FSB's proposals are comprehensive, but we note some related issues.
- One set of topics that is not addressed is the extent to which large financial pools of client assets that may reside in future decentralized finance (**DeFi**) applications could impact financial stability. We largely leave these topics to further consideration by workstreams currently underway by the International Organization of Securities Commissions (**IOSCO**) and further anticipated work of the FSB apart from the CA and GSC frameworks under consideration. We note the role of code vulnerabilities, code exploits, and code auditing and the importance of due diligence in consideration of these risks.
- Also, the boundaries between the FSB's work and non-fungible tokens (**NFTs**) could be further clarified. We note that NFTs are not explicitly mentioned and that if NFTs tokenize real world assets, the materiality of these assets could be much greater than cash in circulation.<sup>3</sup>

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<sup>3</sup>We observe that CAs that are unique and not fungible, and CA services provided in a “fully decentralized manner,” are both excluded from the Markets in Crypto-Assets (**MiCA**) Regulation. See Recitals (6b) and (6c), and (12a) of the “final compromise text” of October 5, 2022, respectively. The official text is expected to be published in 2023.

- Another set of topics that is not addressed is accounting for CAs, which we anticipate requiring clarification or being otherwise addressed by the International Accounting Standards Board (IASB). See our response to question 4 below.
- Finally, appropriate resolution of globally active corporate groups including conglomerates operating in this space will be necessary to ensure the safe failure of entities within those groups participating in such activities. The recovery and resolution recommendations should be revisited in the light of the FTX and other collapses to ensure they address all relevant aspects.

2. Do you agree that the requirements set out in the CA Recommendations should apply to any type of CA activities, including stablecoins, whereas certain activities, in particular those undertaken by GSC, need to be subject to additional requirements?

- In principle, there is no problem having a baseline set of requirements with additional, “top-up” requirements for more specific activities. This type of structure is familiar in many licensing and registration regimes that financial regulators adopt, including in the MiCA Regulation which has a tiered structure for “other crypto assets”, asset-referenced tokens with higher regulatory scrutiny, and e-money tokens with further regulatory implications.
- However, there appears to be considerable duplication of principles between the two regimes (CAs and GSCs) with subtle but important wording differences between them, which are not explained in the reports. As just one example, the recommendations around Regulatory Powers (GSC Rec 1, CA Rec 1) are very similar but distinct (bold shows differences in wording):

<p>Authorities should have <b>and utilise</b> the <b>necessary or</b> appropriate powers and tools, and adequate resources, to <b>comprehensively</b> regulate, supervise, and oversee <b>a GSC arrangement and its associated functions and activities, and enforce relevant laws and regulations effectively.</b></p>	<p>Authorities should have the appropriate powers and tools, and adequate resources to regulate, supervise, and oversee CA activities and markets, <b>including CA issuers and service providers, as appropriate.</b></p>
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- To the extent possible, consistent with the subject-matter, the wording should be fully aligned.
- It is apparent that it would take considerable effort to deduplicate the two regimes. As such, it may be preferable to stipulate that the two regimes are intended to operate in parallel, with one applicable in its entirety to GSCs and the other to non-GSC CAs.
- If, however, the GSC is intended as a top-up regime, the FSB is urged to remove all duplicative requirements from the GSC regime and rely on the CA regime, where possible, and to include in the GSC regime only requirements that are truly additive (i.e. not covering the same topic).
- Also, subtle differences in language should be avoided unless there are different policy outcomes intended, and then these should be explained.

- As a matter of scope, we believe tokenized bank deposits are different from GSCs and CAs broadly depending on how structured and any stablecoin regulation should recognize the difference between these instruments. Bank deposits are subject to extensive prudential capital and liquidity requirements, which allow for fractional reserve banking, and which are quite different from the full-reserve asset backing requirements proposed for GSCs. Given these and other differences, and that the current banking prudential regime and supervision cover risks the FSB’s recommendations intend to address, the FSB should consider these differences in an appropriate treatment of the regimes under consideration.

3. Is the distinction between GSC and other types of CAs sufficiently clear or should the FSB adopt a more granular definition of CAs (if so, please explain)?

- Given the speed of developments in the CA space, it is difficult to set out clear *ex ante* guidelines to further subcategorize CAs that will stand the test of time.
- It is, however, necessary to clearly distinguish GSCs from other CAs, given that they will be subject to additional requirements. Differences between sectoral regulators or jurisdictions on which CAs count as GSCs would be highly undesirable.
- The current GSC definition is too vague; there is a need for quantitative criteria to minimize debate on which are in/out.
- Applying the same requirements to GSCs and “potential” GSCs is undesirable. The term “potential” GSC, and the guidance given about this in the explanatory text, is vague. Supervisors of course should be entitled to carefully monitor any arrangements that show signs of potential to become GSCs.
- A more granular categorization of CAs could build on existing taxonomies and differentiate CAs according to their intended use/purpose or function, e.g. differentiate between payment/e-money tokens (stablecoins), investment tokens (asset-referenced tokens) and utility tokens (e.g. tokens that provide a specific right to use storage space). However, any taxonomy of CAs must be driven by a clear sense of the objectives of the taxonomy.
- There may be additional risks that attend **offshore** GSCs, i.e. stablecoins where the collateral is handled outside the issuing country. The FSB recommendations could usefully address this situation, for example by clarifying which jurisdiction’s regulator should be seen as leading on reserve adequacy supervision, and on obligations for the respective regulators to exchange information in a timely way (and to address legal barriers to enable this, where needed).
- **A fully decentralized** GSC does not appear to be consistent with recommendation 4 (“The governance structure should allow for timely human intervention, as and when needed or appropriate.”), but this could be further clarified.

4. Do the CA Recommendations and the GSC Recommendations each address the relevant regulatory gaps and challenges that warrant multinational responses?

- In general terms, yes.

- We note that the FSB recommendations do not purport to address all risks, though many of the recommendations do tackle market integrity and conflicts of interest type risks.
- Two challenges that could also be addressed (likely through referral to relevant SSBs or international standardization bodies) are around code auditing standards, and around accounting for CAs.
- On code auditing, expectations about the frequency with which the codebase for CAs platforms is audited, and the expected content and conduct of such audits, should be set. In this regard, the IIF notes that 65% of the major exploited protocols in 2022 did not conduct a third-party audit of their code.<sup>4</sup> To the extent that the codebase of many CA protocols and projects builds on or consists entirely in open-source code, they display cyber vulnerabilities that are particular to open-source projects.<sup>5</sup> Relevant standard-setters might include the International Organization for Standardization (ISO). The FSB or IOSCO are urged to take this issue forward within their respective work on DeFi.
- Accounting for CAs is also an issue that should be considered at the international level. Where CAs providers have assets in one denomination (such as ETH) and liabilities in another (such as USD), there should be an expectation that the assets denominated in non-fiat should be marked to market daily, to avoid liability mismatches. The failure to mark CAs to market has indeed been alleged as a factor in the collapse of Celsius Network,<sup>6</sup> and accounting and governance failures were also prominent in the collapse of FTX.<sup>7</sup> In relation to accounting, we are of the view that more clarity on the international accounting standards applicable to the activity of safeguarding of crypto-assets is desirable and should be referred to the IASB as an urgent issue.
- Lastly, principles explicitly aimed at preventing and prohibiting market abuse involving CAs (unlawful disclosure of insider information, insider dealing, market manipulation...) could be included in the CA Recommendations, as is the case in the EU's MiCA Regulation. That said, there may need to be carve-outs for market operations to protect a stablecoin's face value, and certain permissionless blockchains

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<sup>4</sup> European Securities Markets Authority (ESMA) (2022), [Crypto-assets and their risks for financial stability](#), October 4, p. 5.

<sup>5</sup> As open-source code by definition is public to any developer, bad actors can deliberately plant or ignore "trap doors" in the code, which they can exploit later. Other DeFi services such as "vanity address" generators can also embody code vulnerabilities that can have devastating consequences. See, for example, 1Inch Network (2022), [A vulnerability disclosed in Profanity, an Ethereum vanity address tool](#), September 15

<sup>6</sup> See the [complaint](#) in *KeyFi, Inc. v. Celsius Network Limited And Celsius Keyfi LLC*, at paragraph 82. "As mentioned above, Celsius paid a portion of interest on deposits in CEL tokens and a portion of interest in other crypto-assets such as bitcoin and ether. With respect to consumers who chose to be paid in the crypto-asset they deposited (rather than CEL tokens), Celsius logged those liabilities on its books in a U.S. dollar denominated basis from 2018 through 2020 despite the fact that it paid its customers out in the underlying token. It then failed to mark-to-market those assets in its internal ledger as those crypto-assets appreciated, creating a substantial hole in its accounting." These are untested allegations only.

<sup>7</sup> See Coindesk (2022), ['A Complete Failure of Corporate Controls': What Investors and Accountants Missed in FTX's Audits](#), November 19.

may not support oversight of front-running due to a lack of reliable transaction timestamp information.

5. Are there any financial stability issues that remain unaddressed that should be covered in the recommendations?

- For non-GSC CAs, the recommendations do not specifically identify the risk metrics and proxies that should be monitored by authorities. As such, financial institutions (FIs) and other crypto businesses may be subject to inconsistent data requests in many jurisdictions simultaneously. It would be useful for the FSB to better elucidate the key metrics and proxies that supervisors should watch, perhaps building on its own work in its February 2022 assessment of CAs risks.<sup>8</sup>
- As shown by the repercussions of the Terra/Luna, Celsius Network, 3 Arrows Capital and FTX collapses, unstable CA projects can generate very large exposures for individual CA entities and a high degree of interconnectedness seems to be prevalent in these markets. Large exposures to and from particular CA entities may therefore be one topic that could be more closely addressed, either in terms of definitions, aggregation and monitoring, or in terms of absolute limits.
- Specific recommendations concerning requirements for protocols that serve as financial market infrastructure (FMI) would be welcome, beyond the field of GSCs. It may be appropriate, as part of its work on DeFi, for the FSB to task CPMI and IOSCO to issue guidance – similar to that issued for GSCs – about the application of the PFMIs to a distributed FMI that recognizes the different risks or operations involved.

## **CRYPTO-ASSETS AND MARKETS (CA RECOMMENDATIONS)**

### **General remarks**

- We broadly agree with the CA recommendations and agree with the focus, not just on narrow financial stability questions, but investor protection and market integrity. We do, however, have suggestions for refining the wording, as set out in **Annex 2**.
- As mentioned in our answer to question 2, we are concerned that there may be duplication with GSC recommendations where the latter cover the same issue but in more depth. There are many differences of language between the two, and it is not always obvious why.
- As to the scope of the CA recommendations:
  - There is a need to clarify that the regime is not intended to apply to books and records systems using distributed ledger technology (DLT) or blockchain infrastructure, including internal Treasury systems covering multiple affiliates within an FI group.
  - There is a need to conform the use of the term “CA issuer” and “CA service provider” in the recommendations. Some recommendations are addressed to

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<sup>8</sup> FSB (2022), [Assessment of Risks to Financial Stability from Crypto-assets](#), February



both types of actor and some are just addressed to one, without it being clear why.<sup>9</sup>

- It is stated that the FSB is currently analyzing developments and potential risks to financial stability stemming from DeFi. A brief explanation of the extent to which DeFi protocols are included in the recommendations would be helpful. See also our answers to question 1.
- As set out in our answer to question 4, we suggest there may be a need for code auditing and accounting standards for CAs.
- In terms of other or future work:
  - we welcome the continued focus of the FSB and of IOSCO on DeFi;
  - we encourage the FSB and IOSCO to continue on this track; and
  - we recognize the potential utility of DeFi protocols.
- We urge the FSB to add its full weight to the urgency of a comprehensive implementation of FATF recommendation 15 (the “Travel Rule”) as the global effort to fight against cybercriminal activities features high on India’s agenda for the G20 Presidency. FATF work and the Travel Rule are acknowledged in the high-level recommendations and Annex 3 of the GSC consultative report, and we recommend reflecting them in the CA recommendations as well.

6a. Does the report accurately characterise the functions and activities within the crypto ecosystem that pose or may pose financial stability risk?

- Generally speaking, the list of functions and activities does generate meaningful distinctions in risk attributes.
- However, the wording of some of the activities is so broad that it could apply to an activity of the client rather than of the crypto intermediary or platform. For example, “Payment for/of goods, services, gifts and remittances”, “Use as collateral to borrow other CAs, including stablecoins”, “Lending in CAs”, “Direct/outright exposures to CAs”.
- It should be clear that the focus of financial regulators is on the activities of crypto intermediaries and platforms, rather than of individual users (who may of course be subject to general anti-fraud or anti-manipulation laws).

6b. What, if any, functions, or activities are missing or should be assessed differently?

- Given our recommendation that accounting for CAs be referred to the IASB for priority action, consideration could be given to adding “Accounting for CAs” as an additional activity.

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<sup>9</sup> E.g., the first sentence of recommendation 5 is uniquely directed to CA service providers while the last is directed to CA issuers. However, as the content of both sentences is quite similar, the reasoning behind the distinction is unclear.



- We would also suggest that the activity of code development could be separately identified under Activity 1 or elsewhere in Table 1, with relevant risks being that the code does not operate as intended or that malicious or faulty code is deliberately injected into or ignored in the project code base, to be exploited later. Rather than motivating direct regulation of code developers and development, however, we would note that applicable third-party and technology risk management principles already require rigorous due diligence regarding the safety of externally engaged protocols.
- Validators and Miners (Annex 1, Activity 2): ‘validators’ and ‘miners’ should be distinguished as they are not interchangeable concepts. For example, on Ethereum, which uses Proof of Stake, validators earned the right to write to the blockchain based on stake size incentives. On Bitcoin, the right still depends on mining/solving random puzzles to achieve validation.
- Provision of non-custodial (unhosted) wallets (Annex 1, Activity 4): we suggest bearer vs registered as sub-classifications, depending on whether the asset is a bearer asset or a registered asset.
- Data, Indices and Analytics Tools (Annex 2): This entry should differentiate between on-chain oracles/reference sources and centralized solutions. They are very different and produce different risks (e.g. censorship/control over the data seen/market impact and manipulation risk, etc.).
- Hot and cold wallets (Glossary): The FSB could also take note of the recent development of warm wallets (e.g., delegated approval authority through smart contracts which is used to protect assets and/or generate income by lending digital assets).

7. Do you agree with the analysis of activity patterns and the associated potential risks?

- Some of the risks read as a bit too limited, such as “(2) Liquidity risk” under “Creating, issuing and redeeming CAs” which is explained as, “The Proof of Stake protocols may lead to concentration of CAs staked in the protocol and affect available liquidity in the market.” There are many other ways in which liquidity risk may eventuate, particularly around failure to maintain the assets underlying the redemption in liquid enough form (which, as widely recognized, was a significant factor in several of the recent CA project failures).
- Another risk that is not mentioned arises from the failure to account for large liabilities or assets denominated in a particular CA (such as ETH) in a relevant fiat currency. Accounting practices and standards, for unlisted CA intermediaries, may not require daily mark-to-market of CA denominated positions, opening potentially very large maturity/liquidity mismatches. See our answer to question 4 for further details.
- See our answer to question 6 on risks relating to code development.

8a. Have the regulatory, supervisory and oversight issues and challenges as relate to financial stability been identified accurately?

- The issues and challenges identified in Section 3 of the paper appear to be closely aligned to the obstacles that jurisdictions were surveyed on. As such, there may be an element of confirmation bias.

- It is also not clear why the analysis proceeds under the rubric of issues and challenges in regulating and supervising CA activities and markets, rather than the more orthodox route of identifying the regulatory objectives, identifying risks to those objectives arising from the activities under discussion, and then crafting a series of measures that would mitigate or monitor those risks.
- It is not clear why “risk management” appears in the titles of sections 3.4 and 3.5 relating to wallets and custody services, and to trading, lending and borrowing. Risk management normally relates to a firm’s own procedures, while direct requirements, which manage risks to regulatory objectives, are not normally referred to as risk management.

8b. Are there other issues that warrant consideration at the international level?

- Code vulnerabilities and code auditing will require more attention, as will accounting for CAs. See our answer to question 4 for further details.
- As to disclosure, where a trading or lending platform is not itself a listed entity, it may not come under continuous disclosure obligations as a matter of listing requirements. It should, however, be subject to minimum ongoing disclosure obligations, e.g. covering outages, service levels, and its overall asset and liability position, to enable users to make informed judgments whether to continue using the platform and on how much counterparty risk they take on.
- There could be a role for the FSB to foster the adoption by a suitably placed standardization organization such as ISO or NIST of best practices for non-custodial wallets.

9. Do you agree with the differentiated requirements on CA issuers and service providers in the proposed recommendations on risk management, data management and disclosure?

- The consultation makes several very important references to and recommendations concerning the provision of custody services for CAs that the IIF strongly supports.
  - Specifically, this includes the segregation of client assets from firm assets; the separation of the custody function from trading and other market activities; and the need for full disclosure of the terms, conditions, and risk that result from offering custody services.
  - These are foundational concepts for the organization of the custody function in support of client assets (and the stability of the financial system) and therefore are strongly supported by IIF members.
- Generally, there are numerous smaller wording differences between the recommendations on CAs and GSCs that are not clearly explained. We would recommend that the two sets of recommendations be set side-by-side and are deduplicated/integrated with general recommendations applying to all CAs and some additional specific recommendations applying to stablecoins. The two sets of recommendations should be, where possible, fully aligned, unless justified by the differentiated nature of the risks involved. See further our answer to question 2 above.
- In terms of the wording of the recommendations, we make some suggestions on the recommendations in **Annex 2**.

- On disclosure to investors, more details about the content of white papers/offering papers that should be published by issuers would be helpful, in order to ensure that in every jurisdiction all appropriate elements, including aspects such as conflicts of interest and corporate structure, are disclosed.

10. Should there be a more granular differentiation within the recommendations between different types of intermediaries or service providers in light of the risks they pose? If so, please explain.

- Generally, the IIF supports the concept of “same activity, same risk, same regulation,” and also the notion that it is the “same regulatory outcome” that should be achieved, rather than the precise same regulation.
- As mentioned in the cover letter, we would add the nuances that:
  - it is more helpful to understand “same regulation” as meaning “same regulatory **outcome**”, given different regulatory mandates will be engaged and tools may differ across sectors;
  - “same regulatory outcome” can usefully be measured in terms of the level of risk mitigation;
  - depending on size, the magnitude of the risk may be different even if the activity and the nature of the risk is the same, and for these reasons quantitative indicators of GSCs are important to establish; and
  - it is important, still, to distinguish between the risks under assessment (for instance, product risk vs. operational risk) as the same activity executed in a different manner operationally may translate to different operational risk (possibly less risk), while maintaining the same product risk. Operational risk should be tied to a product, and not assessed as a blanket penalty for use of a particular technology.
- Many of the recommendations are couched in terms of proportionality, to the risk, size, complexity and (in some cases) systemic importance of the service provider, and/or to the “financial stability risk they pose, or potentially pose”.
  - We recommend that the list of factors be standardized across the recommendations and that the small differences be ironed out.
  - It is also suggested that “appropriate” may be a better measure than “proportionate” for at least some recommendations, for example Recommendation 4 where it is stated, “The governance framework should be proportionate to [CA issuers’ and service providers’] risk, size, complexity and systemic importance, and to the financial stability risk that may be posed by activity or market in which the CA issuers and service providers are participating.”
  - In some recommendations (for example Recommendation 6), “proportionately” would be more appropriate than “proportionate”.
  - As stated above, we would welcome a more granular differentiation separating platforms providing FMI-like infrastructures from other service providers.

- See generally the more detailed suggestions on language across the Recommendations in **Annex 2**.

## **STABLECOINS (GSC RECOMMENDATIONS)**

### **General remarks**

- Generally, we welcome the GSC recommendations and commend the FSB for having undertaken a thorough review in light of ongoing market developments.
- Scope and definitions
  - The definition of GSC at present is too vague; there is a need for quantitative criteria to minimize debate on which arrangements are in or out of this category. Annex 3 of the GSC consultative report lists potential elements that could be used to determine whether a stablecoin qualifies as a GSC and we think these elements are appropriate.
  - Our European FI members do not wish for a broader scope of arrangements to qualify as GSCs than the class of asset-backed tokens that will be classified as significant asset-referenced tokens or significant e-money tokens in accordance with the criteria in MiCA.
  - We do not support the application of the GSC recommendations to “potential” GSCs. In our view, this leaves too much room for local discretion, and there is no sufficient rationale. Simply put, if a CA isn’t systemically important enough to be a GSC, it shouldn’t be regulated as a GSC. If the FSB remains of the view that it should include potential GSCs, further details or thresholds on what should be considered “potential” are needed.
  - There is a need to clarify that the regime does not apply to books and records systems using DLT, including internal Treasury systems covering multiple affiliates within an FI group.
  - As a matter of scope, we believe tokenized bank deposits are different from GSCs and CAs broadly depending on how structured and any stablecoin regulation should recognize the difference between these instruments. Deposits are one side of a banking balance sheet and not cash collateralized. Bank deposits are subject to extensive prudential capital and liquidity requirements, which allow for fractional reserve banking, and which are quite different from the full-reserve asset backing requirements proposed for GSCs. We also note that prudentially regulated banks (and other entities that are subject to equivalent prudential requirements) could be entitled under the FSB’s current proposals to issue fractionally reserved stablecoins, which may be backed by other assets.

- Reserve assets (Recommendation 9)
  - IIF members agree with the criteria for “conservative assets” for GSCs with stabilization mechanisms that are fully reserved.<sup>10</sup> They also agree that it is not essential to list out all the reserve asset classes, though they also consider that CAs would not normally qualify as conservative assets, so that crypto-collateralized stablecoins, or a stablecoin whose asset reserve contains interests (direct or indirect) to any appreciable extent in itself, should not qualify for GSC status.
  - Having said that, a high degree of harmonization of the reserve asset requirements is desirable, particularly given the ease with which CAs and stablecoins can be made available across borders. Any significant discrepancies between asset reserve requirements will give rise to arbitrage opportunities. As the European Banking Authority (EBA) has yet to set out detailed requirements under MiCA in this space, there is the opportunity for *ex ante* harmonization which should be grasped.
  - The recommendations also would ideally be clearer on the consequences for a GSC that is marketed into one jurisdiction from another: see our answer to sub-question 13a for more detail.
  - There should be a functionally separated custody provider for the management of reserve assets; only in this way can there be strong assurances that the reserve assets will be available if needed: see our answer to question 9 for more detail.
- As to the requirement that there be a right in holders of GSCs of redemption at par, there needs to be clarity that reasonable redemption fees, and reasonable AML/CFT onboarding requirements, are acceptable (as per Monetary Authority of Singapore proposals). The present language could be interpreted as allowing cost recovery only.
  - Reasonable redemption fees should take account of compliance costs, such as the need for (and cost of) KYC/AML onboarding of those redeeming, and also the need on the part of the GSC to maintain sufficient incentives for secondary market makers.

11a. Does the report provide an accurate analysis of recent market developments and existing stablecoins?

- The report provides some context and some data points but is not and does not purport to be a comprehensive study of stablecoins. It is selective, and arguably emphasizes negative developments and overlooks positive outcomes, such as the flight to quality evident in the stablecoins market during times of stress (see answer to sub-question 11b).

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<sup>10</sup> (i.e. those that are not issued by GSCs that are subject to prudential requirements and safeguards equivalent to those applicable to commercial bank money subject to BCBS standards)

11b. What, if anything, is missing in the analysis or should be assessed differently?

- It would be useful for the FSB to update its analysis in light of recent market events, both pre- and post-publication of its October 11 consultative reports.
- It would for example be instructive to study the relative performance of different prominent stablecoins with regard to the “flight to safety” and de-pegging of certain stablecoins that became evidence during those episodes, such as:
  - May 7-13 (UST collapse)
  - June 13-19 (initial Three Arrows Capital liquidation)
  - Nov 6-12 (FTX bankruptcy).
- We note that GSCs raise interesting questions as to the level of due diligence that GSC issuers should conduct on level 1 blockchain providers, that may repay further study, possibly in the context of the FSB’s work on DeFi. While it is not possible to port vetting requirements to new types of providers without adjustment, there is value in the idea that GSC issuers must conduct a thorough evaluation of level 1 providers.
- We also consider that market operations of stablecoin providers that are aimed at maintaining a peg to a reference asset value (such as a fiat currency) may need protection from insider trading or market manipulation rules, if they are extended to cover these. We would suggest that IOSCO could address this topic in its work on CAs and DeFI.

12. Are there other changes or additions to the recommendations that should be considered?

- See our comments on scope, on reserve assets and on redemption at par under “STABLECOINS (GSC RECOMMENDATIONS) – General remarks” above.
- See also our detailed comments on the text of the GSC recommendations in **Annex 2**.
- Our recommendations on further work on accounting standards, made in the context of CAs, are equally applicable for GSCs, and the lack of such standards would be more impactful than for most CAs. If the FSB separates the GSC regime from others CAs, this should be borne in mind. This remark applies equally to the topic of code auditing standards.
- We would also reiterate the point from the covering letter that we would stress the importance of a suitable approach to regulation of what is a very dynamic asset class, and that such a framework needs to be designed to evolve in line with the evolution of the asset class and CA (and hence GSC) markets.

13a. Do you have comments on the key design considerations for cross-border cooperation and information sharing arrangements presented in Annex [1]?

- It is important that cross-jurisdictional cooperation is underpinned by effective information-sharing gateways and confidentiality and other safeguards to facilitate the exchange of information across borders and collective or combined risk assessment among the relevant supervisory and regulatory authorities.

- Generally, we think more detail on international collaboration and international aspects more broadly is warranted:
  - Reserve treatment on a cross-currency basis is not discussed.
  - The recommendations do not deal in detail with the treatment of a foreign issued stablecoin, particularly one that may not be permitted to be issued locally.
  - Little consideration of dispute resolution or recognition of GSCs cross-border has been set out.
  - There is no articulation of expected home:host state responsibilities, including in the important case where different functions of the GSC take place in different jurisdictions.
  - Ring-fencing of reserve assets in a multi-jurisdictional arrangement is an important issue that merits more consideration.
- In the event of a stablecoin issuer bankruptcy, consideration should be given to how foreign holders will be able to bring claims, and how they will be able to be repaid.
- International coordination is key: supervisory colleges that already exist for certain systemically financial market infrastructures such as CCPs, and other ad-hoc arrangements such as those that oversee the Society for Worldwide Interbank Financial Telecommunication (SWIFT), may provide important models for cooperative oversight of a GSC.
  - The FSB could do more to identify the various actors (such as market, banking, payments or e-money regulators in the jurisdictions of circulation of the GSC) who could be expected to populate such a body, and which body (such as the central bank of the reference currency of issuance) could be expected to chair it.

13b. Should Annex 2 be specific to GSCs, or could it be also applicable to CA activities other than GSCs?

- Annex 2 relates to reserve assets disclosures. As such it should be specific to GSCs.
- Consideration could be given to crafting a separate regime for other CA activities, but normally where no reserve assets are held, it would not be appropriate to apply such a template.

14. Does the proposed template for common disclosure of reserve assets in Annex [2] identify the relevant information that needs to be disclosed to users and stakeholders?

- We would suggest additional information be disclosed, where applicable, concerning the mechanism to determine daily or other periodic value; and where reserves are held.
- As points of clarification:



- The reference in the first sentence to “Reserve-backed GSCs” could be clarified; it is not clear whether the template is intended for use for partially reserve backed stablecoins.
- “Daily average over month-end”: presumably this should read, “daily average over month.”
- “Of which, loans or extensions of credit to entities affiliated with the GSC”: should the proportion of such loans that are unsecured be disclosed?

15. Do you have comments on the elements that could be used to determine whether a stablecoin qualifies as a GSC presented in Annex [3]?

- There is a lack of specificity about the thresholds and how the various factors will combine. This could lead to considerable regulatory arbitrage around choosing jurisdictions where a SC may not qualify as a GSC.
- *Market share in payments in each jurisdiction*: The home regulators is unlikely to know this for other jurisdictions. This raises the question, whose responsibility is it to apply the test, if the test differs between jurisdictions?
- *Interconnectedness with financial institutions and the broader economy*: It is suggested that specific measures be postulated, perhaps based on the G-SIB interconnectedness measures.
- *Business, structural and operational complexity*: This element should be either quantified in some way or eliminated from the list.

As the EBA has yet to set out detailed requirements under MiCA in this space, there is the opportunity for *ex ante* harmonization which should be grasped.

## Annex 2

### Part 1: Comments on language of recommendations in the CA consultative report<sup>11</sup>

P. <sup>12</sup>	Rec	Text of recommendation (emphasis added)	Comment or query
22	1	Authorities within a jurisdiction, either independently or collectively, should have and utilise the appropriate powers and tools and adequate resources to regulate, supervise, and oversee CA activities and markets, including CA issuers and service providers as appropriate.	Query what is the status of the non-bold text (such as this extract) under each Recommendation? Will implementation monitoring cover the bold text only, or all the guidance? If the latter, then there is appreciably more potential regulatory burden.
23	2	Authorities should have in place comprehensive regulatory rules and policies applicable to CA activities, issuers and service providers <b>proportionate to their risk, size, complexity and systemic importance</b> , and consistent with the economic functions they perform in line with the principle of “same activity, same risk, same regulation” and relevant international standards while also taking into account the specific risks associated with CA activities.	Query whether the proportionality principle – while a desirable objective – is clear enough to serve as a yardstick for implementation. We have suggested that in some recommendations the phrase be replaced by “appropriate to” and in others by “proportionately to”. See further below.  With regards to “complexity and systemic importance”, we recommend making it explicit that non-FIs can have systemic importance (for example a big tech operating one or more platforms with billions of users, that may be involved in the exchange of CAs or GSCs).
23	2	Supervisory, regulatory and oversight authorities should, as needed, seek to expand or adjust their regulatory perimeter, as appropriate.	Does this apply to governments as well? Sometimes it is only legislatures that can do this.
23	2	The assessment of potential financial stability risks should take into account the interconnectedness between the CA market and the wider financial system, the overall size and	This is a useful list of pointers. More could be done to work up a standard list of indicators/proxies for these factors.

<sup>11</sup> Comments on FSB (2022), [Regulation, Supervision and Oversight of Crypto-Asset Activities and Markets - Consultative document](#), October 11

<sup>12</sup> Page of the PDF file (noting the FSB paper does not have page numbers).

P. <sup>12</sup>	Rec	Text of recommendation (emphasis added)	Comment or query
	.	nature of the activities being conducted (including the degree of financial intermediation, leverage, credit, liquidity and maturity transformation), as well as of the risk of spillovers into other jurisdictions	
24	3	Authorities should cooperate and coordinate with each other, both domestically and internationally, to foster efficient and effective communication, information sharing and consultation in order to support each other as appropriate in fulfilling their respective mandates and to encourage consistency of regulatory and supervisory outcomes.	This is useful as far as it goes. Is there a need for: - better defining home/host responsibilities? - better defining role of central bodies such as FSB in financial stability monitoring?
24	3	Authorities should cooperate in the regulation, supervision and oversight of CA activities and markets, <b>consistent with their respective jurisdictions’ laws and regulations.</b>	In some countries, data barriers to information sharing with foreign authorities may render this impossible or very challenging.
24	3	or consider establishing new arrangements that may encompass additional subject areas	Given the cross-sectoral nature of CAs, there may be merit in exploring the possibility of putting in place a special-purpose “multilateral memorandum of understanding (MMOU) of MMOUs” that links the existing members of the BCBS, IOSCO, CPMI and IAIS MMOUs, and/or technical means or platforms for cross-sectoral data sharing.
24	3	Authorities should take additional steps to collaborate with authorities in relevant jurisdictions when they host CA issuers and service providers with a global reach, taking into account the risk of spillover into other jurisdictions.	Technically, almost all CAs have a global reach. Consider defining this term better, also having regard to geoblocking, soliciting, marketing etc. Also, consider clarifying the reference to “host”, which in the banking space can include the jurisdiction that is hosting a branch of a bank domiciled elsewhere.

P. <sup>12</sup>	Rec	Text of recommendation (emphasis added)	Comment or query
25	4	Authorities, as appropriate, should require that CA issuers and service providers have in place and disclose a <b>comprehensive</b> governance framework	Consider “an effective, comprehensive and robust”.
25	4	The governance framework should be proportionate to their risk, size, complexity and systemic importance, and to the financial stability risk that may be posed by activity or market in which the CA issuers and service providers are participating.	Would a better yardstick be that it be “appropriate” (rather than proportionate) to those things? Not clear what it means to say a governance framework should be proportionate to something else. Does this mean the elaborateness of the framework should be proportionate, or the robustness, or something else?
25	4	including procedures for identifying, addressing and managing conflicts of interest.	Is this of such importance that it should be moved into the “bold text”?
25	5	Recommendation 5: Risk management	This is one area where the non-bold “guidance” adds a lot of detail.  Query whether some of this detail could be reduced/removed, or whether cross-references to BCBS or IOSCO risk management standards would suffice.
25	5	Authorities, as appropriate, should require CA service providers to have an <b>effective</b> risk management framework that comprehensively addresses all material risks associated with their activities	Consider “effective, comprehensive and robust.”
25	5	The framework should be <b>proportionate</b> to the risk, size, complexity, and systemic importance, and to the financial stability risk that may be posed by the activity or market in which they are participating	Again, consider “appropriate” in place of “proportionate”.

P. <sup>12</sup>	Rec	Text of recommendation (emphasis added)	Comment or query
25	5	Authorities should, to the extent necessary to achieve regulatory outcomes comparable to those in traditional finance, require CA issuers to address the financial stability risk that may be posed by the activity or market in which they are participating.	This is a very vague standard and seems to advocate for a tailored approach per issuer. This seems to ignore the existence of other risks which may indicate a consistency of regulatory treatment.
26		identify, measure, evaluate, monitor, report, and <b>control</b> all material risks.	Add “mitigate” to this list, or replace “control” with “mitigate”. Mitigate a risk implies reducing the risk of it occurring, and/or reducing the consequences of it occurring.
26	5	Authorities should consider applying both prudential and market conduct regulatory tools as appropriate.	It is suggested that authorities should do more than merely consider applying such tools, but actually commit to doing so.
26	5	Authorities, <b>as appropriate</b> , should require CA issuers and CA service providers, proportionate to their risk, size, complexity, systemic importance, and to the financial stability risk that may be posed by the activity or market in which they are participating, to establish effective contingency arrangements (including robust and credible recovery plans where warranted) and business continuity planning.	Can more guidance be given on when recovery plans would be warranted or for which activities?
26	5	Authorities should supervise and regulate custodial wallet service providers, <b>proportionate</b> to their risk, size, complexity and systemic importance, ...	How would you supervise and regulate “proportionate”. Does this mean “proportionately”? Is this the right standard or is ‘appropriately’ better?  This is different to the usual formula which talks about risks to financial stability. Could the shorter version of the phrase be used throughout?

P. <sup>12</sup>	Rec	Text of recommendation (emphasis added)	Comment or query
27	6	Authorities should have full, timely, complete, and ongoing access to relevant data and information, wherever the data is located,	Supervisors may need to be more proactive in understanding blockchain-based data sets, most of which are publicly available, and deriving value from those sets either directly or with the aid of third-party analytics firms. This may reduce the scope of data which crypto actors are required to “push” to regulators. IIF welcomes indications that the European Commission seeks to investigate “embedded supervision” approaches. <sup>13</sup>
27	6	Authorities should seek to address any impediments to relevant data access or limitations of the data.	Any cross-border data barriers are a significant barrier to this recommendation. Will the FSB do any follow-up to ensure that data barriers do not frustrate these recommendations?
27	7	[Disclosure] should include, as appropriate, the governance structure and procedures related to the main activities offered and important conflict of interests emanating from CA activities.	It is recommended that governance structures and procedures should not only be disclosed but should be subject to minimum requirements akin to those applicable to banks. In the case of activities such as trading platform operation and market-making, for example, effective information barriers, separate management lines and/or ownership changes should be put in place to ensure that conflicts are managed appropriately.
28	7	for example, a prospectus or an equivalent document from a CA issuer.	White papers as contemplated by legislation such as MiCA may be less prescriptive than a prospectus so query if “equivalent” is the right word here.
28	7	[Disclosure] should include, if appropriate, information on whether or not client assets are <b>protected and segregated properly</b> .	The term “properly” in this context suggests a normative standard that client assets should be protected and segregated. It also implies that they are not being misused or misappropriated.

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<sup>13</sup> See Coindesk (2022), [EU Commission Launches Proposal for Study of Automated DeFi Supervision](#), October 12

<b>P.<sup>12</sup></b>	<b>Rec</b>	<b>Text of recommendation (emphasis added)</b>	<b>Comment or query</b>
	.		
			<p>This should be clarified, particularly given the egregious examples of the FTX collapse and others.</p> <p>Even if they are segregated, they may not be bankruptcy remote. Suggest “bankruptcy remote” instead of “protected and segregated properly”.</p>
29	9	Authorities should consider whether and, if so, how these combined functions can be appropriately regulated within a single entity.	To avoid regulatory arbitrage, it would be preferable for FSB to set out pointers or starting points on which functions should be separated out (e.g., issuer and trading platform provider).

**Part 2: Comments on/queries on language of recommendations in GSC consultative report<sup>14</sup>**

<b>P.</b>	<b>Rec.</b>	<b>Text of recommendation (emphasis added)</b>	<b>Comment or query</b>
7	2	However, additional work remains to implement the high-level recommendations fully across jurisdictions and ensure GSCs are subject to comprehensive regulation, supervision and oversight.	Is it only jurisdictions that host or may host GSCs that will be expected to implement the recommendations? Or should jurisdictions of reception of the GSC (i.e. housing the users) also be expected to implement them? We suggest it be clarified that it is the latter.
8	3	the revised High-level Recommendations extend the scope to stablecoins with the potential to become GSCs.	Applying the same requirements to GSCs and “potential” GSCs is undesirable. The term “potential” GSC, and the guidance given about this in the explanatory text, is too vague. Supervisors of

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<sup>14</sup> FSB (2022), [Review of the FSB High-level Recommendations of the Regulation, Supervision and Oversight of “Global Stablecoin” Arrangements – Consultative report](#)



P.	Rec.	Text of recommendation (emphasis added)	Comment or query
			course should be entitled to monitor carefully any arrangements that show signs of potential to become GSCs.
9	Scope	The recommendations focus on addressing risks to financial stability and therefore do not comprehensively cover important issues such as AML/CFT, data privacy, cyber security consumer and investor protection, market integrity, competition policy, taxation, monetary policy, monetary sovereignty, currency substitution, or other macroeconomic concerns.	This is slightly surprising since the recommendations do address some market integrity and consumer protection issues. Presumably, gaps are left for other SSBs to fill in details (such as IOSCO, FATF). Is that the intent?
10	Scope	relevant principles applicable to cross- border banking supervision and crisis management of the BCBS and the FSB.	It would be helpful to list these out in the final recommendations.
11	1	Application of an authority's powers to regulate, supervise, and oversee GSC arrangements should be <b>commensurate</b> with their existing or potential size, complexity, risk and/or extent of use as a means of payment and/or store of value.	In the equivalent CA recommendation, the term "proportionate" is preferred, and there is also reference to systemic importance and/or financial stability risk. Are the differences intentional? If so, they should be explained.
11	1	<b>Authorities</b> should consider the potential for stablecoins to rapidly scale and become a GSC ...	Which authorities? Presumably, it is the home jurisdiction that should in the first instance be relied on to do the monitoring. For non-G20 countries that may not be the expectation.
12	3.2	Because there is not a well-established bankruptcy regime for CAs, financial losses by custodial wallet providers could cause users to have their stablecoins become part of the general bankruptcy estate of the provider rather than being segregated from the bankruptcy estate.	This is not so much a product of the lack of bankruptcy regimes as of end user licence agreements or terms of use typically disclaiming that client assets are held for clients.
13	2	apply the appropriate regulatory framework, consistent with international standards, in the same manner as they	We note this is another formulation for the same basic idea. We would advocate choosing one formulation and repeating it rather

P.	Rec.	Text of recommendation (emphasis added)	Comment or query
		would apply it to entities and persons performing the same functions or activities, and posing the same risks	than repeating with variations.
13	2	Where a GSC arrangement relies on trading platforms or other intermediaries to perform critical functions, including some or all of its stabilisation function, authorities should require that those intermediaries fall within the regulatory, supervisory and oversight perimeter wherever possible.	Query the case where the intermediary is in another jurisdiction.
13	2	Authorities should also seek to regulate and supervise custodial wallet service providers that provide services related to GSCs.	Should non-custodial wallets relating to a GSC also be regulated? If not, is this consistent with the “Same risk, same regulatory outcome” principle? See also our answer to question 8.
15	4	Authorities should require that GSC arrangements have in place a <b>comprehensive</b> governance framework with clear and direct lines of responsibility and accountability for all functions and activities within the GSC arrangement.	Consider “an effective, comprehensive and robust”.
16	5	to comply with the FATF ‘travel rule’, with specific consideration if the GSC arrangements allow peer-to-peer transactions by unhosted wallets.	Consider adopting a similar requirement for CAs.
16	5	In addition to prudential requirements set forth in recommendation 9, authorities should require GSC arrangements to have comprehensive liquidity risk management practices and contingency funding plans that clearly set out the strategies and tools for addressing large number of redemptions i.e., <b>run scenarios</b> , and are regularly tested and operationally robust. The GSC arrangement should also have robust capabilities to measure, monitor and control funding and liquidity risks, including liquidity stress testing.	It should be specified that these run scenarios should cover extreme but plausible scenarios.

P.	Rec.	Text of recommendation (emphasis added)	Comment or query
17	8	<p>Authorities should require that GSC <b>issuers</b> provide all users and relevant stakeholders with comprehensive and transparent <b>information to understand</b> the functioning of the GSC arrangement, including with respect <b>to governance</b> framework, redemption rights and its stabilisation mechanism</p>	<p>Previously “arrangements”. This change appears slight but could be important. Shouldn’t all the requirements be placed on GSC arrangements, which may include the issuing entity as a part?</p> <p>Removing the term “necessary” before “to understand” potentially both widens and makes vaguer the scope of this obligation.</p> <p>Suggest “to <u>the</u> governance framework”.</p>
17	8	<p>Authorities should require that GSC issuers provide all users and <b>relevant stakeholders</b> with comprehensive and transparent information to understand the functioning of the GSC arrangement, including with respect to governance framework, redemption rights and its stabilisation mechanism</p>	<p>Are potential users “relevant stakeholders”? Suggest it should be clarified that they are.</p>
17	8	<p>Features of GSC arrangements that should be transparent to all users and relevant stakeholders include: the governance structure of the GSC arrangement; the allocation of roles and responsibilities assigned to operators or service providers within the GSC arrangement; the operation of the stabilisation mechanism; the composition of and investment mandate for the reserve assets (see Section 4.3 for common disclosure templates for reserve assets, <b>which may be used by any stablecoin arrangement if there are no specific supervisory disclosure requirements applicable to the GSC</b>); the custody arrangement and applicable segregation of reserve assets; available dispute resolution mechanisms or procedures for seeking redress or lodging complaints, as well as information on risk relevant for users.</p>	<p>The recommendations are directed at authorities, not at GSCs, so the language in bold should be removed or rephrased.</p>

P.	Rec.	Text of recommendation (emphasis added)	Comment or query
18	8	Information to be disclosed to users and relevant stakeholders should include the amount of GSC in circulation and the value and the composition of the assets in the reserve backing the GSC and should be subject to <b>regular independent audits</b> .	It is suggested that more work be done to elaborate a framework for audit and assurance around reserve assets, with different auditing/validation of disclosures at different periodicity. As a backstop, a yearly audited statement should be prepared, but more regular and routine disclosures should also be required, from semi-annual or quarterly audited reports (where available) down to daily, weekly or monthly management disclosures.
18	8	Authorities should require GSC arrangements to <b>have mechanisms</b> to ensure the protection of the interests of users and counterparties, when a potential modification of the arrangement could have a material effect on the value, stability, or risk of the GSC	What is intended by this phrase? Suggest clarify.
19	3.9	... the CPMI-IOSCO guidance on the application of the PFMI to stablecoin arrangements (SAs) clarifies that the so-called “transfer function” (i.e., the transfer of coins) of systemic stablecoin arrangements is an FMI function. As such, when a stablecoin arrangement performs a transfer function and is determined by authorities to be a systemically important FMI, the stablecoin arrangement as a whole would be expected to observe all relevant principles in the PFMI.	Is it intended that this would be a set of SAs that would either overlap with or form a subset of GSCs? In practice, how populous (or how null) is the set of GSCs that are not also subject to the PFMI likely to be? Suggest the FSB could issue some clarifying guidance in its final recommendations.
19	3.9	For issuers that are subject to prudential regulation (e.g. commercial banks), there may nonetheless be a lack of clarity or completeness in the treatment of financial (i.e., market, credit and liquidity risk) and operational risks (e.g. smart contract risk, choice of blockchain, etc.) that arise from stablecoin arrangements, as well as redemption rights. Nevertheless, stablecoins issued by a bank subject to BCBS standards could, in certain cases, provide a claim and	It is suggested that this text is somewhat confusing and could be clarified. For example, why does this recommendation seem to refer only to banks? What would happen with other prudentially regulated entities such as (in the EU) investment firms, e-money issuers or payment institutions that issue GSC?

P.	Rec.	Text of recommendation (emphasis added)	Comment or query
		<p>protections equivalent to deposits, including capital and liquidity requirements and a backstop mechanism, which may contribute to addressing the risk of runs. However, banks could also issue stablecoins as non-deposit liabilities, or from an entity or vehicle off-balance-sheet. Just as is the case for non-bank issued stablecoins, there may be a lack of clarity on the regulatory treatment of bank-issued stablecoins (e.g. with respect to redemption rights and safeguarding of the reserve assets), and existing prudential requirements may not be sufficient to address the risks of runs.</p>	
20	9	<p>To maintain a stable value at all times and mitigate the risks of runs, authorities should require GSC arrangements to have an effective stabilisation mechanism, clear redemption rights and meet prudential requirements.</p>	<p>At present, redemption is necessarily limited to those users that can open user accounts and be onboarded/KYC'd. Unless there is to be an exemption from applicable FATF standards, that must continue to be the case, and an exception needs to be written into the recommendation along those lines.</p>
20	9	<p>Authorities should require GSC arrangements to provide a robust legal claim and timely redemption to all <b>users over a time period that is consistent with the treatment for other payment and settlement assets.</b></p>	<p>Is this standard clear enough?</p>
20	9	<p>Any fees for redemption should be clearly communicated to users and should be <b>proportionate</b>, and not be high enough to become a de facto deterrent to redemption.</p>	<p>Proportionate to what? Presumably, to cost. Reasonable redemption fees should take account of the need for (and cost of) compliance including KYC/AML onboarding of those redeeming, and also the need on the part of the GSC to maintain sufficient incentives for secondary market makers. These possibilities should be mentioned in the guidance.</p>
20	9	<p><b>For GSCs that use a reserve-based stabilisation method</b>, authorities should ensure that there are robust</p>	<p>What other stabilization method is acceptable under the recommendations, given algorithmic ones are not? Presumably,</p>

P.	Rec.	Text of recommendation (emphasis added)	Comment or query
		requirements for the composition of reserve assets consisting only of conservative, high quality and highly liquid assets.	<p>this refers to bank- and bank-like prudential treatment, but the possibilities should be clarified further.</p> <p>This sentence should be made subject to the exception that is provided for in the following paragraph of the text, which relates to entities subject to bank- and bank-like prudential regulation.</p>
21	10	Where regulations of more than one jurisdiction may apply, understand which jurisdictions' rules are applicable to different aspects of the functions and activities performed and engage proactively with authorities.	This sentence is not clear.