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Financial Stability Board
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Addressing the regulatory, supervisory and oversight challenges raised by "global stablecoin" arrangements (consultative document)

Ladies and gentlemen,

The Board has published on 14 April 2020 the captioned paper in response to a call by the G20 to examine regulatory issues raised by "global stablecoin" arrangements and to advise on multilateral responses as appropriate, taking into account the perspective of emerging market and developing economies. The Board has sought the views of stakeholders on the issues and recommendations set out in the paper by 15 July 2020.

METI Advisory AG is a consulting boutique specialized in providing effective and sustainable solutions for crypto and blockchain businesses. It has a deep experience in cryptofinance and digital banking. METI Advisory AG has a deep experience in dealing with banking prudential regulatory policy issues – spanning over more than two decades across both the traditional and digital banking worlds – and is therefore well placed to offer a solid and informed view on the captioned topic.

As a way of introduction, METI Advisory AG would like to commend the Board for being forthcoming and generally supportive of financial innovation. The early involvement of such an influential regulatory policy body is central to guarantee an adoption of financial innovations which is well thought through in terms of sustainability, geared towards granting end users further advantages in economic and inclusion terms.

Blockchain-based financial innovations is preeminently technological in nature and not economical. The Board recognizes that and does not attempt to create bespoke regulations for such innovations, but tries to adapt, in a measured way, existing financial regulation to such innovations - with the aim to avoid gaps and duplications. We welcome this stance.

In what follows, we offer the Board, for consideration, ways to re-balance the risk analysis and to fine-tune the Recommendations. We also highlight a potential roadblock to the development of financial innovations such as stable coins.

Re-balancing the risk analysis

- *"Wealth risks" are exaggerated* - The paper overestimates the risks to the wealth of users of stable coins attributable to change in the value of the stable coin. The stable coin is supposed to be stable and its value should not vary more than the change in the value of the underlying stabilizing asset or portfolio of assets. There is therefore no 'wealth risk' which would be peculiar to stable coins.
- *"Infrastructure risk" is underestimated* - The paper underestimates infrastructure risk. The infrastructure supporting traditional payment systems is tested and stable. The (market) infrastructure supporting crypto finance is still immature, largely unregulated and carries a peculiar risk. This underestimation is particular relevant the bigger the success of the stable coins.
- *"Regulatory perimeter" risk is underrated* – The paper does emphasize regulatory perimeter risks, which is the event that risks originating from unregulated entities and infrastructures supporting stable coins spill over the regulated perimeter - compounding the overall risks. This risk is however a major one in the circumstance and regulators should take a flexible and pragmatic approach towards the regulatory perimeter to safeguard the system against unwarranted risks.
- *Other important vulnerabilities* - The paper does emphasize the vulnerabilities arising from the functions and activities of a global stable coin arrangement, particularly as they relate to redemption arrangements, governance and infrastructural aspects – including safety issues – and the management of the reserves. Jurisdictions are at different stages of development when it comes to the applicable legal framework and this raises arbitrage risk and the overall uncertainty.

Fine-tuning the Recommendations

- *R3 should better recognize that stable coins multiply known cross-border challenges* – R3 makes clear that authorities should cooperate and coordinate with each other domestically and cross-border. The reality of blockchain-based coins is that they are per definition more global in nature than traditional payment / store of value instruments. Moreover, stable coins also face a jurisdictionally-based regulatory and supervisory reality characterized by enormous differences of approach and maturity stage amongst countries. A recommendation that in its strength and depth merely copies what suggested in the area of traditional banking and finance, is insufficient.
- *R4 should stress its primacy in terms of first line of defense and the importance of a risk-based implementation* – R4 calls for stable coin issuers to have in place a comprehensive governance framework. It should be made very clear that the first line of defense against potential risks from stable coins rests with the quality of the governance at the issuing entity level. The requirements should borrow from the ones applicable to regulated financial entities and should be applied to a stable coin issuer in a way proportionate to the systemic risk raised. R5 to R9 provide the content.

Removing a potential roadblock

R10 is a potential show stopper as currently formulated and should be recast or an appropriate process be devised.

Crypto finance regulation world-wide differs widely in terms of approach and maturity stage. Blockchain-based coins are however more global in nature than traditional payment / store of value instruments. In this context, the Board recommends to subject the operations of an issuer in any jurisdiction to the issuer meeting all applicable regulatory, supervisory and oversight requirements of any particular jurisdiction.

In the circumstance, this recommendation is too strict and represents a potential show stopper for the development of (global) stable coins. The Board should emphasise the need to properly balance theorizing and experimenting in a controlled environment when it comes to developing stable coins and financial innovation more broadly. A suitable process should be specified.

The Board should clearly suggest that the desirable regulatory journey is one that allows experiments in a controlled environment and that learns from them to shape the regulatory stance.

Many thanks and kind regards,

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