

FSB Addressing the Regulatory, Supervisory and oversight challenges raised by global stablecoin arrangement

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

Global Stablecoin - Defined as a crypto-asset that aims to maintain its value relative to a specific asset or pool or basket of assets.

Yes, we agree with the characteristics of a:

- 1) Stabilization mechanism
- 2) Combination of multiple functions and activities

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.

Government backing of a stablecoin – this is one of the mechanisms that are currently being reviewed for the China GSC.

Companies/Group of Companies Balance Sheet – this was considered by the Facebook group of companies

Commodity backed – Eg: tied to the value of gold

Market stabilization – halt trading if volatility exceeds a certain threshold.

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?

- 1) Governance of the arrangement – A central governance body could open the GSC to influence of authoritarian governments.
- 2) Issuance, redemption and stabilisation of value of coins – The definition of the Function and the Activities appear to be the same. (Need to define in a way to differentiate functions from activities).
- 3) Transfer of coins – in order to truly meet the definition of a global system of transfer, a permissionless system must be available, or the efficiency and effectiveness of the DLT could be lost.
- 4) Interaction with users – consistent rules for exchanging fiat with country central banks would need to be arranged.

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

The major differentiating criteria for other stablecoins is the limited systemic reach of other SCs. Other SCs would be used within a specific country or company and would not need the same stabilization mechanisms that a GSC would need. In addition, other SCs would not have the same influence on a

potential disruption of market integrity through the payment system or other trading exchange. If other SC were used in a wholesale capacity vs retail capacity, they would require a significantly lower consumer protection criteria.

5. Do you agree with the analysis of potential risks to financial stability arising from GSC arrangements?

If a GSC were to truly emerge that had the global reach and volume similar to a 10% volume of the trading of the US dollar, then I would agree that there would be a potential risk to financial stability arising from GSC arrangement. I do believe that we are not anywhere currently near that situation.

What other relevant risks should regulators consider?

To require a complete regulatory framework and compliance system to be in place and agreed upon globally before any stablecoins that would be traded across borders to be approved would be more detrimental than providing an environment for testing out internationally approved stablecoins. If approval is not provided, the ecosystem is developing non-regulatory approved stablecoins (NRASC) that will expand in scale and scope, until the influence of those NRASC will dominate the market and it will be too late for regulators to influence transparency and legality of these coins. For example the China's stablecoin or DCEP Digital Currency/Electronic Payments, as well as regional stablecoins that are part of Binance's Venus project).

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?

The vulnerabilities outlined in Annex 2 cover the implication of vulnerabilities. However, the breakdown or emergence of vulnerabilities occur when there is disagreement about implementation of regulations of the principles upon which those regulations are the regulations for the GSC conglomerate to be joined by those organizations or countries that wish to issue set.

The appointment of one lead or head regulatory body that would set the regulations for the GSC conglomerate to be joined by those organizations or countries that wish to issue regulated GSC.

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

Governance – Fraud or conflict of interest in those governing the GSC. If there is poison in the tree, then the fruit of the tree will also be poisonous. If the governing agency is in disagreement about underlying fundamental principle such as individual privacy of data, then there can be no agreement on the regulation of a GSC from a data privacy issue. Today, many nations have fundamental differences in their view of human rights and the right to privacy. There is definitely a governance vulnerability due to a lack of agreed-upon standards.

An alternative proposal would include governance regulations for like minded countries to approve. Moving ahead with a governance structure that was in agreement by the few, and then adding on members as the technology continued to be accepted.

Issuing, creating and destroying SC, vulnerability addresses inability to redeem due to liquidity risk, while issuing, creating, or destroying; Operating the infrastructure, Validating Transactions, Storing Private Keys, and Exchanging SC:

could be disrupted by liquidity, operational risk (including cyber attacks), or fraudulent activities related to AML/CFT. The application of each of the regulations of FATF, Basel, PFMI and IOSCO in general, versus having clearly defined regulations for GSC will make it less efficient and less transparent upon which regulations apply when there are contradictions in definition of FX, Commodity, Security or digital asset.

The tools to establish and regulate GSC are more advanced in the hands of the creators/issuers of GSC than the regulatory bodies. As with the 2nd pillar of BSBC II, that the supervisor be involved with the development of the GSC so that there is not a delay at the end of the process due to not meeting regulatory approval.

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

Yes, agree with the characterisation of cross-border issues.

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?

Recommendations 1 – “Authorities ‘should’ have ...” in a perfect world all regulatory bodies would be created equal. Unfortunately, this is not the case. From the standpoint of powers, tools, and resources to regulate individual country regulators are not aligned from a resource or a philosophy view point. This currently leads to regulatory arbitrage, and unless there is agreement on regulation of a new GSC this will continue.

Recommendation 2 – “Authorities should apply regulatory requirements to GSC arrangements on a functional basis and proportionate to their risks.” This principles-based recommendation would be applied in countries where principles-based regulation currently exists. In countries where rules-based regulation is predominant there need to be further granularity to what is meant by “apply regulatory requirements ... proportionate to their risk.”

Recommendation 3 – “Authorities should ... cooperate and coordinate with each other

a. Are domestic regulatory, supervisory and oversight issues appropriately identified?

b. Are cross-border regulatory, supervisory and oversight issues appropriately identified?

Issues within the prescribed scope of the paper are appropriately identified. However, a GSC cannot be regulated in a framework that excludes addressing Monetary Policy, Monetary Sovereignty, Public vs Private issue of digital currency, Payment Services, Central Bank Digital Currency, and AML/CFT concerns.

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

The Chinese are on the verge of issuing China Stablecoin. The pace at which innovation that is happening in this sector cannot be underestimated, and without transparency into this market, one

cannot be sure. It is important to be a partner with those that want to be at the lead of GSCs so that the regulatory framework can develop alongside the technology.

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

If wholesale were to develop within a private blockchain, then a smaller more efficient set of regulations could be developed to address only large, sophisticated block traders in the market. However, if a wholesale offering was on a public blockchain then the same issues would require the same regulation as retail offerings. The supervision could be tighter on the private blockchain, as it would be a smaller number to supervise.

11. Are there additional recommendations that should be included or recommendations that should be removed?

An overview of the framework recommended is attached. This would be a good place to start the discussion about what to include and not include at a high level. Then drilling down into the detail of each of the areas included in the framework, as well as identifying what is not covered in the framework.

Recommendation by several of the regulators address the same issues, and need to be consolidated into one place, starting with the definition of a GSC.

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

The age-old triangle of:

1. Functionality or Regulation
2. Cost
3. Time

And which is seen as the most important.

The consideration that progress in this area is going to continue whether the regulators are participating to achieve the goals laid out in this paper of Financial Stability, Market Integrity, and Consumer Protection. If we delay a workable framework, waiting for the perfect solution, the world will have marched on, and a solution will be thrust upon the market without the opportunity for regulatory input.

FSB GSC CONSULTATIVE DOCUMENT RESPONSE

Stabilization Mechanism
Reserve vs Reference,
Algorithm vs Direct Rights

**Vulnerabilites - Gaps in existing regulatory Framework,
No concistent regulatory classification for GSC**

- Risks**
- Market
 - Credit
 - Liquidity
 - Operational
 - Reputational

**Power Tools
Resources**

DOMESTIC
- REGULATORY
- SUPERVISORY
- OVERSIGHT

FINANCIAL STABILITY

International Standards

- Cooperate
Coordinate
Communicate
Consult

CROSS BORDER
- REGULATORY
- SUPERVISORY
- OVERSIGHT

FINANCIAL INNOVATION
STORE OF VALUE

Global Stable Coin
A crypto asset that maintains a
stable value relative to a
specific asset or pooled assets

- Out of Scope**
- Monetary Poligy
 - Monetary Sovereignty (IOSCO)
 - Currency Substitution
 - Public vs Privite issue of digital currency
 - Payment Service (CPMI)
 - Central Bank Digital Currency
 - AML/CFT (FATF)

- Vulnerabilites**
- Volatility of Reserve Assets
 - Operational Payment System Interruption
 - Fire sale of reserve assets
 - Withdrawal of liquidity provision
 - Operational Validation failure
 - Operational loss of Private Key access

Governance Challenge
Legality &
Enforceability
of redemption
arrangements

GSC may
substitute for
EM domestic
currency

MARKET INTEGRITY

CONSUMER PROTECTION

TECHNOLOGICAL INNOVATION
MEANS OF PAYMENT
DLT

**Banking
Payment
Security / Investment**

RISK MANAGEMENT FRAMEWORK
- RESERVE MGT
- OPERATIONAL RESILIENCY
- CYBER SECURITY
- AML/CFT
- RECOVERY
- RESOLUTION

FUNCTIONS

- Governance
- Issuance
- Redemption
- Stabalization
- Transfers
- Interaction with Users
- Storage of Private Key
- Exchanging

- ACTIVITIES**
- DLT Protocols
 - Permissioned
 - Permissionless
 - Validation Mechanism
 - Private Keys
 - Custodial
 - Non-custodial
 - Fiat Exchange

Wholesale **Retail**