FSB FINANCIAL STABILITY BOARD

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Balancing Innovation and Financial Stability

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V20 Summit

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Secretary General

Good afternoon.

Thank you for inviting me, as secretary General of the Financial Stability Board, to address this distinguished conference. I very much regret not to be able to join you in person – not least because you are gathering in Bali, a place that reminds us that no digital world can substitute for the real one.

Just as many of you gathered at this conference represent young and new companies forging their way in the digital asset space, so too the FSB is a relatively young international body relative to many of our peers. The FSB was established by the G20 Leaders in 2009, in the aftermath of the global financial crisis, to coordinate a comprehensive financial reform agenda.

Since then, the FSB has had many opportunities to prove its effectiveness as a body for international work on global financial stability. The FSB's focus in the first couple of years was on fixing the fault lines exposed during the global financial crisis through policy development, implementation monitoring, and evaluation of whether the reforms were working as intended.

But over time, a range of new topics have emerged and moved to the fore, reflecting current challenges such as the financial impact of the Covid pandemic, but also major structural shifts in the global financial system such as technological innovation in financial services. One specific topic that has moved up the regulatory agenda – and has become a key priority for the FSB – is the growth in digital assets, or as we refer to them at the FSB – crypto-assets.

Overview of the FSB

Before I get into our work on crypto-assets, let me spend a few minutes to provide some context on the FSB – who are we and how do we fit into the international regulatory landscape?

The FSB is an international body with a robust mandate on financial stability covering all phases of the policy process – risk assessment, policy development and implementation, and effectiveness evaluation. This clear focus prevents mission creep and helps to concentrate our work on technical rather than political issues.

The FSB has broad and senior membership across the main authorities relevant for global financial stability, including central banks, ministries of finance bank supervisors and market regulators, sectoral standard setting bodies such as CPMI or IOSCO, and international organisations. The FSB's membership represents advanced and emerging economies – all G20 member countries, plus another 70 jurisdictions through our six Regional Consultative Groups. Overall, the FSB provides a forum where principals discuss financial policy in a holistic manner – across sectors, and across jurisdictions.

This holistic perspective is particularly useful when considering the implications of crypto assets. Digital innovation is intrinsically borderless and breaks sector boundaries, so many of its implications are multi-jurisdictional if not global, and cross-sectoral – this creates an important role for the FSB in developing an appropriate regulatory framework.

The FSB's approach to financial innovation

Technological innovation is not a new phenomenon, especially so for financial services. It was not long ago that most banking services occurred with paper bills, paper checks, visits to the local bank branch, and waiting until the end of the month to receive your account statements. Now we can simply tap a card or phone to make instant payments, monitor our accounts any second via our cell phones, and many of us may not have been inside a bank branch in years.

This is to say that many financial regulatory authorities, including the FSB, have been dealing with technological innovation for a long time.

The overarching principle that guides the FSB's work on financial innovation is for financial authorities to act in a way that harnesses the benefits of innovation while containing its risks. These include risks to financial stability, but also market integrity, consumer protection, or perhaps even monetary sovereignty.

The key to a policy approach that harnesses the benefits of innovation is technology neutrality. This principle recognises that it is not the role of regulation to prescribe particular solutions to economic problems – in terms of technologies used, in terms of business models employed, etc, but rather to focus on the economic functions performed through innovations and their potential associated risks.

To illustrate this point, it is useful to recall that innovation does not fundamentally alter the nature of financial risks. Consider destabilizing runs on financial intermediaries. Bank runs are a phenomenon that is centuries old, as is the motive for running: a concern that one's assets may lose significant value, and a hope that moving early may contain losses. The assets that are subject to runs have evolved with technological innovation, including bank deposits, money market funds and, recently, crypto assets. But the underlying sources of risk have remained the same: maturity and liquidity mismatches, excessive risk taking and, of course, the use of leverage.

This is not to say that technology may not affect financial risks. Instead, they do change the form and scale of risks. Regulations should react quickly to these changes because what matters is how technology affects the functions that financial services offer to their users. In other words, the lodestar for regulation should be the principle: 'same activity, same risk, same regulation'

The FSB's approach to crypto-assets

So how does the FSB apply this principle to crypto asset activities? Crypto-assets and markets provide many of the same economic functions as traditional financial markets, they must be subject to effective regulation and oversight commensurate with the risks they pose. This is the essence of out 11 July Statement on International Regulation and Supervision of Crypto-asset Activities, which says that: "An effective regulatory framework must ensure that crypto-asset activities posing risks similar to traditional financial activities are subject to the same regulatory outcomes, while taking account of novel features of crypto-assets and harnessing their benefits."

In some instances, this may require the application of existing rules to crypto-assets, in others it may require new guidance or regulation specific to crypto-assets to deliver equivalent outcomes.

At the FSB, we are working on four key issues related to the regulation, supervision, and oversight of crypto-assets.

First, many crypto-asset activities and markets are not captured by regulations, or are operating in non-compliance with applicable regulations, or are unregulated.

Second, data gaps make the assessment of financial stability risks from crypto-asset activities challenging. When we talk about data gaps, we often hear from the industry that data transparency is one of the benefits of a public blockchain. However, the blockchain only provides a glimpse into the true activities and risks of crypto-asset activities. In many cases, basic information on governance and risk are not disclosed.

Third, crypto-asset activities require comprehensive cross-sectoral regulation. Crypto-asset intermediaries and service providers often combine activities that could fall under different sectoral regulatory regimes.

For example, crypto-asset trading platforms often offer a vertically integrated suite of services, such as marketplace trading, order pairing, settlement and clearing, lending, proprietary trading, matched trading, custody, and brokerage services. Some trading platforms also act as intermediaries for the issuance of stablecoins and their promotion and market making.

Finally, cross-border cooperation, coordination, and information sharing among regulatory authorities are essential given the inherent global nature of crypto-asset activities.

Jurisdictional differences in legal and regulatory frameworks and supervisory and enforcement outcomes underscore the potential for regulatory fragmentation and arbitrage without cross-border cooperation and information sharing.

With these considerations in mind, the FSB submitted to the G20 Finance Ministers and Central Bank Governors in October a comprehensive set of proposals for the regulation and supervision of crypto-asset activities.

They consist of:

- proposed recommendations to promote the consistency and comprehensiveness of regulatory, supervisory and oversight approaches to crypto-asset activities and markets and to strengthen international cooperation, coordination and information sharing; and

- a review of the FSB's high-level recommendations of October 2020 for the regulation, supervision, and oversight of "global stablecoin" arrangements.

My colleague Eva Huepkes will be discussing these recommendations in more detail later at the conference.

The FSB's proposals, along with the work undertaken by the standard-setting bodies (SSBs), should provide a foundation for greater consistency and cooperation among authorities' approaches to the regulation and supervision of crypto-asset activities and markets.

Finally, let me say a few words about next steps. The FSB is soliciting comments from the public until 15 December 2022 on its proposals and encourages all interested stakeholders to participate in the consultation.

Then we plan to hold outreach events with the public, including the crypto-asset industry, to gain additional insights on our proposals in the first quarter of 2023. The FSB will then finalise its recommendations and submit them to the G20, for their endorsement, in July 2023.

Meanwhile, the FSB will continue to monitor the crypto-asset market and may consider the risks and policy actions for other key aspects of the crypto-asset market, such as Defi and crypto-asset intermediaries and trading platforms. Throughout all this continued engagement with the private sector will be key.

I look forward to hearing your views on how we can build a safer, more resilient crypto-asset market ecosystem.

Thank you.