



15 July 2020

Secretariat to the Financial Stability Board
Bank for International Settlements
Centralbahnplatz 2
CH-4002 Basel
Switzerland

E-mail: fsb@fsb.org

Dear Sir/Madam

Feedback on Addressing the Regulatory, Supervisory and Oversight Challenges Raised By “Global Stablecoins” Arrangements consultative document issued by the Financial Stability Board (FSB)

The following correspondence is in reference to the FSB’s issue of the Addressing the Regulatory, Supervisory and Oversight Challenges Raised By “Global Stablecoins” Arrangements consultative document on 14 April 2020.

Please refer to Annexure A for SBG comments to the Questions as per the consultative document.

Should you require any additional information or wish to discuss any aspects further, please do not hesitate to contact us.

Yours sincerely

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Head: Prudential Regulation
Standard Bank Group

The Standard Bank of South Africa Limited (Reg. No. 1962/000738/06) Authorised financial services provider and registered credit provider (NCRCP15)

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Company Secretary: Z Stephen - 27/05/2020

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Annexure A:

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

We agree with the crypto-asset, digital asset and stablecoin distinction used throughout the paper.

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.

The broad split between pegged/asset-backed and algorithmically stabilised coins is sufficient at this stage. It's unlikely broadly defined-enough recommendations would result from a more granular split. If we compare the start and evolution of the stablecoin market to derivatives as has been done in the annexure section of the consultation document, many variations will emerge over time and a very proactive approach will be required to identify, track and understand risks and vulnerabilities as these emerge, as Global Stable Coins have the ability to evolve and scale rapidly.

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?

Yes, we agree with the functions and activities detailed.

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

There aren't many qualitative differences and the functions and activities split described in Table 1 applies to both. The difference in actual arrangements being in, e.g. Issuance (needing to be highly transparent as the market capitalisation of tokens in issue increases), Interactions with users (GSCs being listed on the largest crypto-asset exchanges whereas other stablecoins used for settlement efficiencies by limited participants may not be). In other words, the functions and activities breakdown remains the same however the variables differ between GSCs and SCs.

The main differentiator is the ability to scale rapidly across borders and to be utilised as a payment mechanism and store of value, this will facilitate seamless value transfer over the internet, uptake will be very fast and happen on DLT public permissioned and permissionless versions, with permissionless versions having more risk from a governance and regulatory perspective if allowed. Stablecoins could become GSC arrangements, but typically would require connection of various networks as provided by a GSC arrangement.

5. Do you agree with the analysis of potential risks to financial stability arising from GSC arrangements? What other relevant risks should regulators consider?

Agree. The risks are well-articulated.

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?

We agree with the enumerated vulnerabilities.

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

No. The tools outlined were sufficiently comprehensive.

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

Yes, we agree with the identified cross-border issues. There are many dependencies that contribute to the overall functioning of the GSC arrangement that complicates the authority's role and ability. At the core will be a ledger that track transactions and embed all the individual components as the nature of the transaction changes until handed over to another ledger. The various models and operating models must have the ability to provide transparent real-time capabilities that enable the tools of regulators to manage these issues.

Transparency/tracking and tracing/identity are key requirements to govern and regulate cross-border transactions, these are the core benefits of DLT and should be utilised to proactively manage these issues with responsibility and accountability assigned when setting up arrangements. The ability to scale will depend on authorities managing these issues proactively when the arrangements are established.

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?

We believe the recommendations are sufficiently flexible while covering the relevant risk areas adequately. The focus on technology neutrality is an important one.

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

Yes

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

Yes

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

Yes

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

The regulations are well-suited for this family of digital assets – in particular global stablecoins. Given the plethora of use-cases and implementations, over-arching regulation of every instantiation of a crypto-asset will be an ongoing exercise as novel technologies and business models arise.

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

It is important to emphasise even further how these assets will be used differently within Advanced Economies and EMDEs – particularly the implications on supervision. For example, specific regulation may be envisioned in North America or the EU in respect to a Libra, which represents a very different set of risks to central banks in South America and Africa. I.e. further exploring different risks depending on the jurisdiction.

We believe that as these arrangements go live the understanding will improve and the accounting treatment, risk management, legal, netting rules and regulations evolve with adjustments required over time. The aim, as per this document, is to anticipate and proactively drive and adapt requirements to ensure that financial inclusion is possible. Participation and coordination as mentioned is the key.

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

No specific considerations at this juncture. We encourage the evident spirit of flexibility and technology-neutral policy-making. The objective is for market participants to have clarity, thus opening the door for more institutional players to contribute meaningfully to the ecosystem.