State Street Corporation

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

Via email: fsb@fsb.org

Re: Addressing the Regulatory, Supervisory and Oversight Challenges Raised by Global Stablecoin Arrangements

Dear Sir or Madam:

State Street Corporation ("State Street") appreciates the opportunity to respond to the Financial Stability Board's ("FSB") consultative document on addressing regulatory and supervisory issues related to stablecoin arrangements globally ("consultative document").[1] The consultative document discusses vulnerabilities and potential risks to financial stability arising from stablecoin arrangements and then outlines a series of recommendations to promote the consistent and effective regulation of such arrangements, including on a cross-border and cross-sectoral basis.

Headquartered in Boston, Massachusetts, State Street is a global custodian bank which specializes in the provision of financial services to institutional investor clients. This includes the provision of investment servicing, investment management, data and analytics, and investment research and trading. With $31.864 trillion in assets under custody and administration and $2.689 trillion in assets under management, State Street operates on behalf of its clients in more than 100 geographic markets globally.[2] State Street is organized as a United States bank holding company, with operations conducted through

[1] Available at *https://www.fsb.org/wp-content/uploads/P140420-1.pdf*.
[2] As of March 31, 2020.

several entities, primarily its wholly-owned depository institution subsidiary, State Street Bank and Trust Company.

Global custody banks, such as State Street, employ a highly specialized business model focused on the provision of financial services to institutional investor clients, such as asset owners, asset managers and official sector institutions. This includes the provision of safekeeping, settlement and asset administration services, as well as access to deposit accounts and other banking services used to facilitate day-to-day transactional activities. Global custody banks also offer their clients other closely-related financial services, such as fund accounting, recordkeeping and transfer agency functions. Below we highlight a few key considerations and recommendations that we urge the FSB to consider as it works to finalize its proposed approach to stablecoin arrangements.

Concurrent Creation of the Wholesale and Retail Regulatory Frameworks

As an initial matter, although we recognize that the recommendations laid out in the consultative document are predominantly intended for retail-focused stablecoin arrangements, we note that the principles developed by the FSB for such arrangements will have important implications for the development of the wholesale market for digital assets. Moreover, in many cases the opportunities and risks associated with stablecoin arrangements are equally relevant for both retail and wholesale product offerings. For example, retail and institutional clients may use the same payments systems for stablecoin and other digital asset arrangements and therefore the payment solutions developed for retail markets could easily influence the development of solutions intended for various segments of the wholesale markets, such as digitally-enabled foreign exchange transactions. As such, we believe that core features of the regulatory landscape for retail and wholesale digital assets, including stablecoin arrangements, should be defined in tandem in order to avoid both potential regulatory fragmentation and the sub-optimal distribution of financial resources, such as the bifurcation of liquidity pools (notwithstanding their digital form).

Technology Agnostic

Secondly, State Street strongly supports the FSB's position that the regulatory framework for digital assets, such as stablecoin arrangements, should be technology neutral and should focus instead on the underlying financial activities and associated risks. This will help foster innovation in the financial services industry as the underlying digital technology evolves. Moreover, we believe that the regulatory framework defined by the FSB should not disadvantage the use of digital assets that are the functional equivalent of traditional assets solely because of the technology which underlies such assets. For example, digital versions of securities issuances that offer the same rights and similar protection to investors as securities currently issued through a central securities depository should not face different regulatory or legal obligations.

Furthermore, we believe that the principle of "same business, same risk, same rules" should be at the core of any effort to define the regulatory framework for digital assets, either securities or innovative cash assets, including global stablecoin arrangements. In our view, this approach will enable the markets to benefit, over time, from the flexibility inherent in digital assets without favoring one business model over another, an approach that, in order to be successful, will require close cross-border collaboration among market participants and regulators, including cooperation between prudential and securities regulators.

Definition of "Arrangements"

The consultative document defines a stablecoin arrangement as "an arrangement that combines a range of functions (and the related activities) to provide an instrument that purports to be used as a means of payment and/or store of value" whereby the arrangement includes multiple activities including "providing custody/trust services for reserve assets." We are concerned that this definition is overly broad and may, as a result, inappropriately include currently regulated financial entities (*e.g.* Bank A) that would provide asset servicing to a stablecoin issuer (*e.g.* client of Bank A). As such, we believe the FSB's definition should be narrowed to exclude financial institutions that are already subject to prudential and other similar regulatory requirements.

Moreover, we believe that compliance obligations for stablecoin arrangements should be defined at the coin issuer level. An analogy can be made to the regulatory framework which applies to regulated Financial Market Infrastructures ("FMIs"). Specifically, although an FMI will be required, for instance, to have a risk policy in place for how it selects correspondent banks, it is not necessary in most cases that it obtain a specific "FMI supporting" bank license. Similarly, a currently regulated bank providing custody or other banking services to a stablecoin issuer, should be excluded from new regulatory requirements developed for other sponsors or providers of stablecoin arrangements.

Risk and Operational Resilience

As the consultative document appropriately states, the risk posed by global stablecoins spans across the banking, payments and securities sectors, both within and across jurisdictions, and will invariably change over time. In order to properly address these considerations, the FSB proposes that "[a]uthorities should ensure that GSC [global stablecoin] arrangements have effective risk management frameworks in place especially with regard to reserve management, operational resiliency, cyber security safeguards and AML/CFT measures, as well as 'fit and proper' requirements."

We strongly agree with the FSB that effective risk management is a key component of the regulatory framework for stablecoin arrangements. However, State Street believes that in relation to operational resiliency, a separate regulatory framework should not be created for prudentially-regulated financial institutions that support third-party issuers of global stablecoins. Instead, this should be considered as part of the broader, ongoing work by regulatory authorities to develop an operational risk framework for the financial industry. We note, in this respect, that the Basel Committee is expected to release guidance around operational resilience for global banks in the near term. Using the requirements from the Basel guidance to govern financial institutions' overall operational resiliency requirements, including with respect to stablecoin arrangements, will create a more consistent approach to operational resilience and avoid redundant and overlapping requirements that may result from the emergence of a separate set of mandates for stablecoin arrangements.

In our view, this also applies to the interaction between any changes proposed in connection with stablecoin arrangements and other existing regulatory requirements. For example, stablecoin arrangements may seek regulation as an FMI (*e.g.* a payment system). In those cases, there needs to be a careful evaluation of whether a stablecoin arrangement could be regulated under the existing framework for FMIs, or whether a new stablecoin-specific set of rules is required. This is particularly relevant since the consultative document notes that systemically important stablecoin arrangements need to comply with, CPMI-IOSCO[3] and FMI standards. We are concerned that including existing financial institutions within the scope of the regulatory framework for stablecoin arrangements may increase uncertainty around the applicable regulations.

Moreover, careful consideration is needed around de novo risks that may be created by the issuance of stablecoin arrangements, such as anti-money laundering, market, liquidity and credit risk. For example, currently cash accounts for pools of assets are held with custodian banks who will validate a receiver when a client requests the transfer of an asset to another bank. Depending on how a coin issuance is structured, the coin could be transferred without the custodian bank's knowledge. As such, new controls may need to be put in place, but these should be carefully defined so they do not unnecessarily limit the technical possibilities of digital assets. Additionally, while industry consensus is still being developed, it is important that the regulatory framework address the underlying liquidity of stablecoin arrangements, as well as the choice, composition and management of stablecoin reserve assets. This is not, however, intended to suggest that the regulatory frameworks for stablecoin arrangements should be created in isolation from those requirements which currently apply to asset managers and other sponsors of pooled investment products.

Data Standardization

As a final matter, we believe that the FSB should consider the issue of data standardization when developing the regulatory framework for stablecoin arrangements, as this will help drive efficiencies in the market and reduce overall costs. For example, the use of legal entity identifiers ("LEIs") in regulatory reporting has promoted a greater understanding of the scope of financial entities globally and their interactions, which in turn makes cross-referencing and data aggregation easier to undertake. Moreover, broad adoption of LEIs in global financial markets enables more effective data management, thereby improving supervisory authorities' ability to monitor and assess systemic risk. As such, we urge the FSB to consider the broader adoption of reference data identifiers, such as LEIs, when defining the regulatory framework for stablecoin arrangements.

Conclusion

Thank you once again for the opportunity to respond to the consultative document. To summarize, State Street supports simultaneously developing the wholesale and retail regulatory frameworks for stablecoin arrangements as many principles apply to both regimes. Additionally, the regulatory framework for stablecoin arrangements must be technology agnostic; should incorporate the use of reference data identifiers to drive efficiencies in the marketplace; and while we support robust, effective risk management, the operational resilience and other regulatory risk requirements should not be developed in isolation. Finally, we recommend the narrowing of "arrangements" to exclude currently regulated

[3] Abbreviation for the Committee on Payments and Market Infrastructures and International Organization of Securities Commissions.

banks that provide custody or other banking services to stablecoin issuers. We appreciate the FSB's engagement on this matter and stand ready to serve as a trusted and experienced resource as the regulatory framework for stablecoin arrangements is developed, including its implications for wholesale financial markets.

Please feel free to contact me at jjbarry@statestreet.com should you wish to discuss State Street's submission in further detail.

Sincerely,

Joseph J. Barry