

POSITION PAPER



WSBI-ESBG response to the Financial Stability Board (FSB) consultation on the proposed framework for International Regulation of Crypto-asset Activities

ESBG (European Savings and Retail Banking Group)

Rue Marie-Thérèse, 11 - B-1000 Brussels

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WSBI-ESBG would like to thank for this opportunity to comment on the Financial Stability Board (FSB) proposed framework for International Regulation of Crypto-asset Activities. The World Savings and Retail Banking Institute (WSBI) and the European Savings and Retail Banking Group (ESBG) would like to provide you with the comments below, for consideration by the FSB.

1. General Information

On 11 October 2022, the FSB published a [proposed framework](#) for International Regulation of Crypto-asset Activities, which sets out (i) recommendations that promote the consistency and comprehensiveness of regulatory, supervisory and oversight approaches to crypto-asset activities and markets and strengthen international cooperation, coordination and information sharing; and (ii) revised high-level recommendations for the regulation, supervision, and oversight of “global stablecoin” arrangements to address associated financial stability risks more effectively. The FSB coordinates at the international level the work of national financial authorities and international standard-setting bodies and develops and promotes the implementation of effective regulatory, supervisory, and other financial sector policies in the interest of financial stability.

FSB reports that crypto-assets and markets must be subject to effective regulation and oversight commensurate with the risks they pose. Crypto-asset markets are fast evolving and could reach a point where they represent a threat to global financial stability due to their scale, structural vulnerabilities and increasing interconnectedness with the traditional financial system. Although the extent and nature of crypto-asset use vary somewhat across jurisdictions, financial stability risks could rapidly escalate, underscoring the need for both timely and pre-emptive evaluation of possible policy responses as well as regulatory action where existing requirements apply.

An effective regulatory framework must ensure that crypto-asset activities are subject to comprehensive regulation, commensurate with the risks they pose, while harnessing potential benefits of the technology behind them. Where crypto-assets and intermediaries perform an equivalent economic function to the one performed by instruments and intermediaries in the traditional financial system, they should be subject to regulations in line with the principle of “same activity, same risk, same regulation.”

The proposed framework sets out: a) the key issues and challenges in developing a comprehensive and consistent regulatory approach that captures all types of crypto-asset activities that could give rise to financial stability risks; b) policy initiatives at the jurisdictional and international levels; c) the FSB’s proposed approach for establishing a comprehensive framework.

The FSB invited [feedback](#) on the mentioned proposed framework, in particular on the questions set out below. WSBI-ESBG is providing such feedback which can be found on the following pages.



2. Executive summary:

WSBI-ESBG supports the FSB in addressing these crucial issues on time. We agree that these issues have become urgent in light of the collapse of some large-scale projects in 2022, continued instability in digital asset markets, and significant investor losses. Moreover, we welcome the initiatives of the FSB to encourage consistency and common understanding of the key elements of comprehensive regulatory, supervisory and oversight frameworks for crypto-asset activities and markets, as well as their coming support to authorities in implementing the proposed recommendations as crypto-asset activities and markets evolve.

We strongly believe that regulation of this market is 1) key to protecting customers and to fostering sound innovation and 2) should necessarily be consistent at a global level to be fair and efficient.

At the same time, we advocate a more measured regulatory approach. It should not unduly restrict the ability of regulated financial institutions to engage in CA activities. The risks associated with CA activities should be subject to sound risk management, capital and liquidity regulation, and ongoing supervisory oversight.

WSBI-ESBG would like to report the following comments regarding the FSB's set of recommendations:

- While crypto-asset activities and markets are growing and spreading into more and more customers' and firms' hands, we believe that this development must be anchored on a combination of both innovation, agility, robustness, transparency and security. Several types of players must be involved and a level playing field must be ensured.
- Regarding strong trusted third-parties and key players in the protection of customers' data and assets, banks have to play a key role in the crypto-asset activities and market, and therefore should not be penalized by disproportionate or asymmetric regulatory burden compared to rules which would apply to crypto pure players.
- We welcome the FSB's incorporation of the "same activity, same risk, same regulation" principle into this work. To complement the principle, we would add that "same regulation" should be understood in the sense of "same regulatory outcome." Different regulatory mandates come into play, and the instruments in different sectors may also be others. "Same regulatory outcome" can be measured, for example, by the degree of risk mitigation. Depending on the size and interconnectedness, the risk level may differ, even if the activity and type of risk are the same.
- Moreover, we would like to highlight the need for consistency between regulations and requirements applicable to traditional finance and crypto-based finance. Regardless of the chosen technology, the same rules should apply to the same activities. Therefore, we agree with the "technology neutrality" as a guiding principle for regulation in this area. In this respect, we support the FSB's approach that clearer guidance or an expansion of



the regulatory framework is needed to consider a particular technology's specifics.

- We would like to emphasize that CAs are a very dynamic asset class. Therefore, it is essential to have an appropriate dynamic approach to regulation. This framework should be designed to keep pace with the evolution of the asset class and CA markets. It is key to develop and implement cross-sector standards, particularly because market developments and existing stablecoins may be supervised by different authorities (at both national and international levels). Moreover, as crypto-asset activities and markets experience global growth overcoming geographical limits, cooperation, and coordination between authorities are critical. High consistency between local and international regulations and requirements should be applied.
- We agree that crypto-asset issuers and service providers should disclose material and cyber security risk-associated requirements. Environmental and climate risks should be considered as well. Nevertheless, this does raise the issue of how to implement such a risk-regulatory framework when “accredited” data and methodologies are not properly identified. Thus, hindering the production of relevant and reliable information.

3. Feedback

General

1. Are the FSB's proposals sufficiently comprehensive and do they cover all crypto-asset activities that pose or potentially pose risks to financial stability?

- We believe the FSB's proposals are sufficiently comprehensive and clear. However, we would add the definition of digital assets since the crypto-assets term is often interchanged with the digital asset one.
- Moreover, one potential source of financial stability risk that needs to be directly captured is the “developer activity”. To the extent that large financial pools of customer assets may reside in decentralized financial applications (DeFi) and software-related issues (including code vulnerabilities, and code audits) may have financial stability implications. For this reason, the FSB should be mindful of the non-fungible token DeFi interface since both crypto-assets activities are exempt from the Markets in Crypto-Assets (MiCA) regulation.

2. Do you agree that the requirements set out in the Crypto-Assets (CA) Recommendations should apply to any type of crypto-asset activities, including stablecoins, whereas certain activities, in particular those undertaken by Global Stablecoins (GSC), need to be subject to additional requirements?

- We agree.



3. Is the distinction between GSC and other types of crypto-assets sufficiently clear or should the FSB adopt a more granular categorisation of crypto-assets (if so, please explain)?

- Given the rapid developments in CAs, it isn't easy to establish clear guidelines ex-ante for further subcategorization of CAs. The difference between Stablecoins and GSCs might not be fully understood. Besides the geographical footprint, other differentiation criteria are not easy to identify and explain and, consequently, questions like "shall different requirements apply to Stablecoins vs GSCs" might not be properly answered. Therefore, it is necessary to clearly distinguish GSCs from other CAs, as they will be subject to additional requirements. Differing views among sectoral regulators or jurisdictions on which CAs qualify as GSCs would be highly undesirable.
- A more detailed categorization of CAs could be built on existing taxonomies. For example, CAs could be differentiated by their purpose or function, e.g., between payment/e-money tokens (stablecoins), investment tokens, and utility tokens. However, any taxonomy of CAs must be guided by a clear vision of the taxonomy's goals.
- In the glossary, we would add one more sentence to enlighten the reader about the difference of Stablecoins compared with GSCs.

4. Do the CA Recommendations and the GSC Recommendations each address the relevant regulatory gaps and challenges that warrant multinational responses?

- We notice an increase in experiments regarding the national CBDCs and cross-country CBDCs. Therefore, being in a very incipient status we cannot fully assess if all gaps were identified.
- We believe the current CA Recommendations and the GSC Recommendations cover the most important gaps and challenges.
- We believe CBDCs impact might need to be added, or at least to be mentioned as "on watch list".

5. Are there any financial stability issues that remain unaddressed that should be covered in the recommendations?

- As mentioned in question 4, CBDCs should be included in the recommendations.

Crypto-assets and markets (CA Recommendations)

6. Does the report accurately characterise the functions and activities within the crypto-ecosystem that pose or may pose financial stability risk? What, if any, functions, or activities are missing or should be assessed differently?

- We would require further information to comment.



7. Do you agree with the analysis of activity patterns and the associated potential risks?

- We would require further information to comment.

8. Have the regulatory, supervisory and oversight issues and challenges as relate to financial stability been identified accurately? Are there other issues that warrant consideration at the international level?

- As aforementioned, we believe that besides the CBDCs and their impact on liquidity and credit risk, everything else is sufficiently addressed.

9. Do you agree with the differentiated requirements on crypto-asset issuers and service providers in the proposed recommendations on risk management, data management and disclosure?

- We agree.

10. Should there be a more granular differentiation within the recommendations between different types of intermediaries or service providers in light of the risks they pose? If so, please explain.

- In our opinion the stated differentiation is clear.

Global stablecoins (GSC Recommendations)

11. Does the report provide an accurate analysis of recent market developments and existing stablecoins? What, if anything, is missing in the analysis or should be assessed differently?

- We believe a brief differentiation between the various type shall be present. The stablecoins can be backed with various assets: fiat, other cryptos, other assets or algorithmic stablecoins, because the associated risks are different.

12. Are there other changes or additions to the recommendations that should be considered?

- No comments from our side.

13. Do you have comments on the key design considerations for cross-border cooperation and information sharing arrangements presented in Annex 2? Should Annex 2 be specific to GSCs, or could it be also applicable to crypto-asset activities other than GSCs?

- No comments from our side.



14. Does the proposed template for common disclosure of reserve assets in Annex 3 identify the relevant information that needs to be disclosed to users and stakeholders?

- No comments from our side.

15. Do you have comments on the elements that could be used to determine whether a stablecoin qualifies as a GSC presented in Annex 4?

- No comments from our side.



About WSBI (World Savings and Retail Banking Institute)

WSBI brings together savings and retail banks on all continents and represents the interest of 6,200 financial institutions. As a global institution, WSBI focuses on issues of global importance, affecting the banking industry. It supports the aims of the G20 in achieving sustainable, inclusive and balanced growth and job creation around the world, whether in industrialised or less developed countries. WSBI favours an inclusive form of globalization that is just and fair, supporting international efforts to advance financial access and financial usage for everyone. It supports a diversified range of financial services that responsibly meet customers' transaction, savings and borrowing needs. To these ends, WSBI recognizes that there are always lessons to be learned from savings and retail banks from different environments and economic circumstances. It therefore fosters the exchange of experience and best practices among its members and supports their advancement as sound, well-governed and inclusive financial institutions.



World Savings and Retail Banking Institute - aisbl
Rue Marie-Thérèse, 11 ■ B-1000 Brussels ■ Tel: +32 2 211 11 11 ■ Fax : +32 2 211 11 99
Info@wsbi-esbg.org ■ www.wsbi-esbg.org

About ESBG (European Savings and Retail Banking Group)

ESBG is an association that represents the locally focused European banking sector, helping savings and retail banks in 16 European countries strengthen their unique approach that focuses on providing service to local communities and boosting SMEs. An advocate for a proportionate approach to banking rules, ESBG unites at EU level some 885 banks, which together employ 656,000 people driven to innovate at 48,900 outlets. ESBG members have total assets of €5.3 trillion, provide €1 trillion billion in corporate loans, including SMEs, and serve 163 million Europeans seeking retail banking services. ESBG members commit to further unleash the promise of sustainable, responsible 21st century banking. Learn more at www.wsbi-esbg.org.



European Savings and Retail Banking Group - aisbl
Rue Marie-Thérèse, 11 ■ B-1000 Brussels ■ Tel: +32 2 211 11 11 ■ Fax : +32 2 211 11 99
Info@wsbi-esbg.org ■ www.wsbi-esbg.org

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