

Regulation and Supervision of Global Stablecoins: the FSB High-level Recommendations

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Overview

- Background: overview of FSB work on stablecoins
- Design features and functions of stablecoins
- Risks and vulnerabilities
- The FSB High-level Recommendations
 - Objectives and scope
 - Key elements
 - Status of implementation
 - Specific policies issues and questions
- What is next?

Background - FSB work on stablecoins

June 2019

- Facebook announces the planned launch of a cryptocurrency structured as a ‘stablecoin’.
- The G20 mandates the FSB to examine regulatory issues raised by ‘global stablecoins’ and to advise on multilateral responses taking into account the perspective of emerging market and developing economies.
- FSB establishes a working group on regulatory issues of stablecoins.

April 2020

- FSB issues a consultative document based on a stocktake of regulatory approaches across FSB and RCG jurisdictions.

October 2020

- FSB issues high-level recommendations to address the regulatory, supervisory and oversight challenges raised by ‘global stablecoin’ arrangements.
- FSB publishes the G20 Cross-border payments roadmap of which fostering the soundness of global stablecoin arrangements for cross-border payments in one building block

October 2021

- FSB issues progress report on the implementation of its high-level recommendations.

What is a stablecoin and how does it differ from other crypto assets?

Design features of stablecoins

- The FSB defines
 - a **stablecoin** as crypto asset designed to maintain a stable value relative to a specified reference asset or pool of reference assets.
 - a **global stablecoin** as a stablecoin with a potential reach and adoption across multiple jurisdictions and the potential to achieve substantial volume.
- Stablecoins differ by the stabilisation mechanism used, e.g., asset-linked or algorithm-based, technology and entities involved.
- The largest by market capitalisation and most used stablecoins are currently single currency stablecoins that are denominated in or pegged to a single fiat currency.
- Confidence in stablecoins as means of payment and store of value arises in part from the confidence that the stabilisation mechanisms ensure that the stablecoin can be redeemed in fiat currency at all times, including during times of stress.

What is a stablecoin arrangement?

Functions of stablecoins

The core functions that support stablecoin activities are:

- **Issuance, Redemption and Stabilization of Stablecoin Value.** The mechanisms by which stablecoins are issued or destroyed, the procedures for management of reserve assets to maintain the value of the stablecoins, and the custodial services for reserve assets and the stablecoins;
- **Stablecoin Transfer.** The maintenance of the infrastructure and mechanisms governing access to the system and that authorize and validate transactions on the system
- **Interaction with Users.** The user interface that supports the purchase, exchange or holding of stablecoins, as well as services, such as storing private keys, providing access to digital wallets, trading and market-making functions.

Certain functions may be deemed equivalent to regulated activities (e.g., deposit taking, issuing e-money, providing payment services, operating an investment fund)

What are potential risks and vulnerabilities of stablecoin activities?

Potential financial stability risks, risks to stablecoin users or stablecoin runs could arise from

- fragilities in the operation of the stabilisation mechanism
- abuse of stablecoins for money laundering, terrorist financing or other forms of illicit finance
- deficiencies in operational resilience and cyber defences and in the safety, efficiency and integrity of the underlying technology
- interconnections within the financial system (e.g., disruption or failure of any of the financial institutions' provision of services to stablecoin issuers, such as e.g., management and custody of reserves, could disrupt the stablecoin issuers' operations)

Any perception that a stablecoin may not perform according to expectation could undermine the users' confidence and lead to a "run" of its holders to redeem the stablecoin, leading to fire sales of the underlying reserve assets

Additional vulnerabilities may arise from the potential for an individual stablecoin to scale rapidly due to, for example, access to existing customer bases or social media platforms.

Stablecoins could also be seen as having certain benefits, in particular in regard to the speed and efficiency of cross-border payments.

How to design an appropriate regulatory regime to address the risks and vulnerabilities?

Objectives and scope of the FSB High-level Recommendations

- guide regulatory authorities in developing their regulatory and supervisory policies
- inform updates to international sectoral standards and principles
- support the implementation of a key building block of the G20 roadmap to enhance cross-border payments.
- focus on privately issued stablecoins used for retail payment purposes and risks to financial stability, not covering AML/CFT, data privacy, cyber security consumer and investor protection and competition

What do the FSB High-level Recommendations address?

Key elements of the high-level recommendations

A functional approach based on the principle “same risk, same rules”

Powers and tools to comprehensively regulate and supervise stablecoin arrangements

- governance
- risk management in particular with respect to operational resilience, cyber security, AML/CFT, market integrity and consumer protection
- management of reserves
- data protection
- recovery and resolution planning
- Issuance, transfer, distribution and redemption of stablecoins

Cross-border and cross-sector cooperation and coordination in particular for global stablecoin arrangements

Global stablecoins to meet jurisdictional requirements before commencing operations

What is the status of implementation of the High-level Recommendations?

Implementation at jurisdictional and international level

Implementation overall at an early stage

Different approaches pursued: amendment of existing rules vs. adoption of new bespoke regime

Regulatory initiatives at jurisdictional level at different stages, e.g.,

- EU Regulation on markets in crypto assets
- US President's Working Group Report on stablecoins

Standard setting bodies continuing to assess whether and how existing sectoral standards apply

- Basel Committee published proposals for the prudential treatment of cryptoassets, including stablecoins
- CPMI-IOSCO provided guidance on how the Principle for Financial Market Infrastructures apply to stablecoins performing a transfer function
- FATF provided that entities involved in stablecoin activities, including wallet providers, are subject to AML/CFT obligations

Specific policy questions

Some of the issues and challenges include:

- What entities should be allowed to issue, transfer, exchange, store and distribute stablecoins?
- How should they be regulated and by what authority? Do existing regulatory perimeters need to be extended?
- What prudential and other requirements can address the identified risks and vulnerabilities of stablecoin activities?
- Should payment stablecoins be subject to a direct right to redemption at par at all times into fiat currency?
- What requirements should apply to the composition, custody and management of reserves of the stabilisation mechanism?
- How can we ensure that the same regulatory classification and treatment applies across all jurisdictions where the stablecoin may be used?
- How can we ensure that prudential and other requirements are effectively applied across jurisdictions?

What is next?

FSB to review by July 2023 in consultation with the standard-setting bodies and international organisations the recommendations in the FSB Report and how any gaps identified could be addressed by existing frameworks, and update the recommendations if needed.

The FSB progress report identified certain potential areas of focus for the review and update:

- conditions for qualifying a crypto-asset as a stablecoin;
- conditions for when a so-called stablecoin may be appropriately identified as global stablecoin (GSC) (accorded a high priority);
- redemption rights;
- requirements for issuers, custodians, and providers of other GSC functions (e.g., wallet providers);
- cross-border cooperation and coordination (accorded a high priority), mutual recognition and deference; and
- arrangements and conditions for cross-sectoral coordination.

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