FSB: Report to the G-20 on work on crypto-assets by the FSB and other standard-setting bodies. October 2018.

The Financial Stability Board (FSB) has submitted – in response to the mandate received at the March meeting – to the G-20 Finance Ministers and Central Bank governors for their meeting in Buenos Aires (21-22 July) a **report describing the work and other initiatives carried out on crypto-assets to date by the FSB and other standard-setting bodies**. These other bodies are the Committee on Payments and Markets Infrastructures (CPMI), the International Organization of Securities Commissions (IOSCO) and the Basel Committee on Banking Supervision (BCBS).
Specifically, the work of these bodies on crypto-assets includes the following:

- The FSB, in collaboration with the CPMI, has developed a framework and identified metrics to monitor the financial stability implications of crypto-assets markets.
- The CPMI has conducted significant work on applications of distributed ledger technology and analysis of payment innovations.
- IOSCO has established an Initial Coin Offering (ICO) Consultation Network, which will be integrated into a recently-created Support Framework to assist members in considering how to address domestic and cross-border issues stemming from ICOs that could impact investor protection. It is also analysing regulatory issues around crypto-asset platforms.
- Finally, the BCBS is quantifying the materiality of banks' direct and indirect exposures to crypto-assets and clarifying the prudential treatment of such exposures.

Work and initiatives of the FSB on crypto-assets

In June, the FSB Plenary approved a report prepared by its Standing Committee on Assessment of Vulnerabilities (SCAV), in collaboration with the CPMI, which indicated that crypto-assets do not pose a material risk to global financial stability at this time, but supported vigilant monitoring in light of the speed of developments and data gaps.

In order to conduct this monitoring, both bodies have collaborated in the development of a **framework for the monitoring of financial stability risks related to crypto-assets and for assessing potential transmission channels of these financial stability risks based on metrics or indicators of such risks**. The criteria used for selecting the metrics include comparability over time and across jurisdictions, ease of access and repeatability, degree to which the metric is anchored in data and analytical effort to compute. The quality and reliability of the data used for calculating the metrics is essential: data from public sources are used where available, supplemented by data from supervisory work

The risk metrics or indicators initially monitored by the FSB, without prejudice to the fact that others may be added later, are described in the annex to the report and are as follows:

- In order to control **primary or basic risks** as a possible transmission channel, the metrics that will be analysed are market capitalisation (size and rate of growth), price levels, volatility of major crypto-assets and developments in non-FSB jurisdictions (qualitative data). These indicators will make it possible to understand the potential size of the effects in the event of a rapid decline in the price of crypto-assets.

- In order to assess the possible transmission of risks arising from **confidence effects** relating to markets/investors, the reputation of the crypto-asset market and the impact on confidence will be analysed. In this case, the document indicates that it will be necessary to perform qualitative market intelligence gathering, which is sometimes difficult to measure.

- In order to understand the **effects of crypto-assets on financial market capitalisation** and their impact on wealth, the metrics that will be analysed, with regard to market capitalisation, are the size and rate of growth of the crypto-asset market, data on ICO issuance and inflows/outflows between fiat currencies and crypto-assets. With regard to prices, the metrics to be analysed are price levels, price volatility and rate of growth.

- In order to evaluate **institutional exposures** to crypto-asset markets, the indicators identified are as follows: derivatives, market capitalisation and the degree of exposure of banks to crypto-assets. With regard to derivatives metrics, an analysis will be conducted of trading volumes, price levels and open interest, number and type of clearing members and margining.

- In order to assess possible risk transmission with regard to **payments and settlement**, the wider use of crypto-assets in payments and settlements will be analysed.

It is important to bear in mind that market data metrics such as prices, trading volumes and volatility may be manipulated by generally prohibited practices, the existence of which cannot be ruled out at this stage.

In addition to the rapid development of these markets, other challenges that have been identified are the lack of transparency –including the identity and location of ICO issuers and the law applicable to them–, the scarcity of data and lack of reliability of existing ICO data, the fragmented nature of crypto-asset markets and the legal uncertainty relating to the treatment and characterisation of crypto-assets.

In conclusion, the FSB believes that the proposed metrics provide a useful picture of crypto-asset markets and the financial stability risks they may present.

Work and initiatives of the CPMI on crypto-assets

The CPMI and IOSCO examined the "Principles for financial market infrastructures" in April 2018, and did not identify at this stage any critical issues or gaps for distributed ledger technology-based FMIs. The CPMI report "Cross-border retail payments" (February 2018) assessed the potential efficiencies and risks from market changes as a result of payments with private digital tokens.

The CPMI's work plan for innovation contains the following lines of action: contacting central banks and advising them to proceed with caution on a possible **Central Bank Digital Currency** (CBDC); monitoring of CBDCs and private digital tokens used for payments, including the development of decentralised tokens with improved technology and/or underlying assets (so-called "second-generation cryptocurrencies"); and analysing, with a focus on safety and efficiency, wholesale digital currencies. The CPMI will undertake a survey of global central banks in 2018 to further inform its work in this area. Other matters on which it is working include legal issues around holding and transferring digital currencies and cross-border implications of the CBDCs.

IOSCO's work and initiatives on crypto-assets

IOSCO has published several warnings about ICOs aimed at its members and the general public. It has also established a network through which members share information and experiences on ICOs. Moreover, in May it agreed that this network would become part of a support framework to assist members in identifying regulatory risks arising from ICOs and deal with any issues raised by the offering of ICOs at both a domestic and cross-border level. In order to meet this objective, this framework will build on the network's resources.

This new structure will provide information that will allow regulators to assess the nature of an ICO in their own jurisdictions, to identify potential gaps in investor and market protection between ICOs and conventional securities offerings and markets and, finally to identify potential changes to local law that will facilitate consistent standards of protection between ICOs and conventional securities offerings and markets.

IOSCO is also analysing several legal issues related to c**rypto-asset platforms**. At present, the platforms do not

pose global financial stability risks, but they do entail a possible risk for investor protection, market integrity and money laundering, among other items. Some platforms may not be subject to sectoral securities market legislation. IOSCO will therefore work closely with other international bodies, such as the CPMI and the BCBS to evaluate approaches to these issues.

With regard to platforms that fall within the remit of securities regulators, IOSCO's Committee on Secondary Markets has begun to examine Internet-based platforms, including crypto-asset platforms. An initial question that the document indicates should be explored is whether IOSCO's Principles for secondary markets would be applicable to crypto-asset platforms. Other issues identified for analysis are: transparency, custody and settlement, trading and cyber-security and system integrity.

The document also considers that it is relevant to examine issues around access as certain crypto-asset platforms are subject to non-intermediated access, which raises investor protection concerns related to suitability and know-your-customer obligations that are not typically responsibilities born by regulated markets.

With regard to the legislation to be applied to the platform, the document suggests that there should be coordination between jurisdictions with regard to supervision and enforcement.

The BCBS's work and initiatives on crypto-assets

The BCBS's work in relation to crypto-assets can be grouped into three broad categories:

- Quantifying the materiality of banks' direct and indirect exposure to crypto-assets, which has not been easy given the scarcity of reliable data on banks' holdings of crypto-assets. The BCBS is conducting an initial stocktake that might be followed by a structured data collection exercise on crypto-assets as part of its half-yearly Basel III monitoring exercise.

- Clarifying the prudential treatment of banks' exposure to crypto-assets. While the current Basel framework does not set out explicit treatment of banks' exposures to crypto-assets, it does set out minimum requirements for the capital and liquidity treatment of "other assets". The BCBS is conducting a stocktake of how its members currently treat such exposures as part of their domestic prudential rules. Based on the results of this stocktake, the BCBS will consider whether to formally clarify the prudential treatment of crypto-assets across the set of risk categories (credit risk, counterparty credit risk, market risk, liquidity risk, etc.).

- Monitoring the developments relating to crypto-assets/FinTech and assessing their implications for banks and supervisors, as follow-up to its report on "Sound Practices on the implications of FinTech developments for banks and bank supervisors" (February 2018).

Link of interest:

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