

Press release

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FSB assesses risks of multi-function crypto-asset intermediaries

- ***Report warns that combining different activities within multifunction crypto-asset intermediaries (MCIs), many of which are typically restricted or separated in traditional finance, could exacerbate MCI vulnerabilities.***
- ***Financial stability implications from the failure of an MCI will depend on the effective implementation and enforcement of comprehensive and consistent regulations to crypto-asset markets globally.***
- ***Further work may be needed to enhance cross-border cooperation and information sharing and to address information gaps identified in the report.***

The Financial Stability Board (FSB) today published a [report on the financial stability implications of multifunction crypto-asset intermediaries \(MCIs\)](#). MCIs are individual firms, or groups of affiliated firms – such as FTX (prior to its failure) – that combine a broad range of crypto-asset services, products, and functions typically centred around the operation of a trading platform. Most of these activities have analogues in traditional finance but are often not provided by the same entity or are restricted or controlled to prevent conflicts of interest and promote market integrity, investor protection, and financial stability.

The report notes that MCI vulnerabilities are not so different from those in traditional finance: leverage, liquidity mismatch, technology and operational vulnerabilities and interconnections. It warns that certain combinations of functions could exacerbate these vulnerabilities. For example, the engagement of MCIs in proprietary trading, market making on their own trading venues, and the lending and borrowing of crypto-assets could lead to higher leverage. MCIs offering investment programmes to their users, issuing proprietary crypto-assets, or operating investment and venture capital arms may also be exposed to liquidity mismatch. These vulnerabilities are further amplified by a lack of effective controls, for example, governance and risk management frameworks; operational transparency, with poor or no disclosures; and by conflicts of interest. There are also additional vulnerabilities stemming from the centrality of MCIs in the crypto-asset ecosystem and their concentration and market power.

The report notes that while the threat to global financial stability and to the real economy from the failure of an MCI appears limited at present, significant information gaps remain. The closure or failure of a few “crypto-asset-friendly” banks earlier this year highlights the risks from increasing interconnectedness with the traditional financial system. Financial stability implications – both at individual jurisdiction and global levels – depend on how the crypto-asset sector develops, how the role of MCIs changes within the sector, the extent to which MCIs

expand their linkages with traditional finance, and the effective implementation and enforcement of comprehensive and consistent regulations to the crypto-asset markets globally.

The report identifies issues for consideration by the FSB in collaboration with standard-setting bodies:

- to assess whether the amplification risks for combinations of MCI functions as well as lack of proper governance and conflict of interest are adequately covered by FSB and SSB recommendations or warrant additional mitigating policy measures.
- to consider ways to enhance cross-border cooperation and information sharing to help local authorities effectively regulate MCIs operating globally.
- to consider ways to address the information gaps identified in the report.

Notes to editors

In July 2018, the FSB published a monitoring framework that set out the transmission channels the FSB would use to monitor the financial stability implications of crypto-asset markets as part of its ongoing assessment of vulnerabilities in the financial system. This was followed, in February 2022, with an Assessment of Risks to Financial Stability from Crypto-assets, which examined developments and associated vulnerabilities in crypto-asset markets, including stablecoins and so-called decentralised finance (DeFi). The FSB published a report in February 2023 with its assessment of The Financial Stability Risks of Decentralised Finance.

Following a public consultation, the FSB finalised a global regulatory framework for crypto-assets that was endorsed by the G20 in September 2023. The recommendations address financial stability risks of crypto-asset markets and activities, including issuers and service providers. They cover regulatory power, cross-border cooperation, governance, risk management, data, disclosure, systemic risk, and multi-function intermediaries.

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. It brings together national authorities responsible for financial stability in 24 countries and jurisdictions, international financial institutions, sector-specific international groupings of regulators and supervisors, and committees of central bank experts. The FSB also conducts outreach with approximately 70 other jurisdictions through its six Regional Consultative Groups.

The FSB is chaired by Klaas Knot, President of De Nederlandsche Bank. The FSB Secretariat is located in Basel, Switzerland and hosted by the Bank for International Settlements.

For further information on the FSB, visit the FSB website, www.fsb.org.