BLOCKCHAIN FOR EUROPE

Response to FSB Consultation on addressing the regulatory, supervisory and oversight challenges raised by "global stablecoin" arrangements

Blockchain for Europe's response

15 July 2020

1. Do you agree with the analysis of the characteristics of stablecoins that distinguish them from other crypto-assets?

Blockchain for Europe ('BC4EU') welcomes the opportunity to submit its views on addressing the regulatory, supervisory and oversight challenges raised by "global stablecoin" arrangements. BC4EU and its members are well-positioned to provide experience and expertise on the technological issues that can determine the design of such arrangements.

We understand that FSB has identified the following characteristics of stablecoins that distinguish them from other crypto-assets:

- Stabilisation mechanism.
- Combination of multiple functions and activities.
- Potential reach and adoption across multiple jurisdictions for "global stablecoins"

To start with, we support the classification of crypto-assets into four broad categories: "payment tokens," "investment tokens," "utility tokens," and "hybrid tokens". Ultimately, these assets could be classified based on the particular economic function and purpose they serve, as well as their structure. As such, most stablecoins should fall under the category of payment tokens. Such an approach is consistent with that taken by other jurisdictions like Switzerland, which has issued a token classification that is principles-based and technology-neutral.[1]

That being said, we agree with the characteristics put forward by FSB to distinguish between stablecoins and crypto-assets. Therefore, we believe it would be useful to create a classification of crypto-assets at EU and global level and the best way to achieve this classification is through binding legislative action. This would create legal certainty for the industry and enable innovation. The current lack of a common taxonomy has been a source of frustration and confusion for industry members who are seeking clarity on which regulatory regimes they might be subject to in individual countries given the tokens they have developed and/or are using. Anything less than binding regulatory classification could result in the adoption of multiple and discordant definitions by countries, causing greater confusion among market participants and creating the opportunity for regulatory arbitrage. Further, where regulatory uncertainty persists, businesses necessarily begin to look elsewhere for needed funding, talent, and support.

Creating a singular classification will help foster a common understanding among both government and industry members regarding what crypto-assets are and, accordingly, what regulations they will be subject to. This type of clarity will not only allow government bodies to legislate more effectively

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[1] See https://www.finma.ch/en/news/2018/02/20180216-mm-ico-wegleitung/ (stating that the Swiss Financial Market Supervisory Authority FINMA will focus on the function and transferability of tokens in assessing ICOs).

in the future, but the crypto-asset community to continue to grow and innovate in the EU and beyond. In this regard, the Securities and Markets Stakeholder Group (SMSG) advice to ESMA provides a useful way to approach classification. It is however important that crypto-assets are assessed on a case-by-case basis given that their features (securities, payment, utility) can change over time. Moreover, crypto-assets can often contain hybrid features which makes it difficult to classify them. A potentially helpful initiative in the process of classification is currently set-up by the International Token Standardisation Association (https://itsa.global/). Another workable approach is provided by the Liechtenstein Blockchain Act via its Token Container Model, which can be a starting point for crypto-assets regulation at EU level. This approach is principle-based and technology-neutral. Under this approach, tokens can contain different rights such as shares, bonds, access rights and money. This matches the SMSG advice to the ESMA which proposes a classification of crypto-assets based on the rights that they confer.

However, we would urge the FSB to reconsider its distinction between “global stablecoins” and “other stablecoins”. In our view, there should be no such distinction, as most stablecoin arrangements have the potential to reach and achieve adoption across multiple jurisdictions. Stablecoin arrangements which could have a higher potential to do this should not be treated differently. Ultimately, the design of the stablecoin, including its systemic relevance, should be the deciding factor for the applicable rules on a case-by-case basis rather than merely its potential to reach a global scale. As such, we propose defining these as Systemically Relevant Stablecoins (SRS) rather than “global stablecoins”.

4. What criteria or characteristics differentiate GSC arrangements from other stablecoin arrangements?

In our opinion, there is no distinction between "stablecoins" and "global stablecoins" (GSC) as all stablecoins are global by nature unless their purchase is geo-blocked or restricted by a government - which is currently not the case for either restrictions. Equally, the potential scalability of a stablecoin should not in itself be sufficient to determine whether a stablecoin is a global stablecoin.

None of the criteria proposed in the FSB Consultation document per se make a GSC more or less global. It is the linkage of certain criteria that combined, could potentially make a stablecoin reach a level of risk which is globally relevant for financial stability and could, therefore, make a stablecoin “global” or rather ‘systemically relevant’. Based on this definition, we do not believe a standardised approach should apply, but regulators should rather look at stablecoins on a case-by-case basis and supervise them based on the risk level. For example, based on the risk-level, local and regional crypto-assets can bear larger risk than globally available ones. Therefore, a systemically relevant stablecoin (SRS) is a more accurate definition than GSC which only captures the global nature of a stablecoin.

5. Do you agree with the analysis of potential risks to financial stability arising from GSC arrangements? What other relevant risks should regulators consider?

In our opinion, there is no distinction between "stablecoins" and "global stablecoins" as all stablecoins are global by nature. Therefore, when assessing the potential risks to financial stability, regulators should consider stablecoins under a single heading, looking at their features, design and the activity performed on a case-by-case basis.