



Brussels, 15 July 2020

## Euroclear SA/NV

### Addressing the regulatory, supervisory and oversight challenges raised by “global stablecoin” arrangements

#### Euroclear Consultation Response

##### **1. Introductory Note**

The Euroclear group is the world's leading provider of domestic and cross-border settlement and related services for bond, equity and fund transactions. The Euroclear group holds assets under custody for a value of €31 trillion and settled transactions for a value of €837 trillion in 2019. Largely user owned and user governed, the group includes the International Central Securities Depository (ICSD) Euroclear Bank, based in Brussels, as well as the national Central Securities Depositories (CSDs) Euroclear Belgium, Euroclear Finland, Euroclear France, Euroclear Nederland, Euroclear Sweden and Euroclear UK & Ireland.

Euroclear welcomes the opportunity to comment on the Financial Stability Board's market consultation on the regulatory, supervisory and oversight challenges raised by “global stablecoin” arrangements. Such consultation is a necessary step towards the implementation of global standards addressing the very specific nature of these new instruments. Given that DLT and the instruments that emerged with it are still at an early stage, we favour the development of global principles and close alignment between regulators when addressing the regulatory and supervisory aspects of GSC arrangements and other crypto-assets.

While some crypto-assets may be assimilated to existing financial instruments and therefore justify the applicability of the existing principles or rules, it seems appropriate to develop a new regulatory and supervisory framework for stablecoins due to their novel features and risks. The analysis made by the FSB for the development of such regulatory and supervisory framework is therefore very relevant.

As many of the risks that can arise from stablecoins are the same than those identified and addressed for existing financial instruments, it will be important for the FSB to follow the general principles of "Same business, same risks, same rules". *Another general principle that will be key in the of such new regulatory and supervisory framework is its technology neutrality.* The requirements must apply to the entities servicing the instruments, independently of the technology used.



## **2. Key messages**

From our detailed responses further below, we would like to highlight the below points which we believe are the most important to be considered by the FSB as part of its ongoing work on stablecoins regulatory, supervisory and oversight challenges.

### **a. Segregation of roles and duties**

The consultative document highlights that the different functions and activities of a stablecoin arrangement could be provided by a single entity<sup>1</sup> and that the entity issuing the stablecoin may hold the reserve assets<sup>2</sup>. In our view, the possibility of having one legal entity performing all tasks in a stablecoin arrangement could lead to significant risks, both in terms of financial stability and in terms of consumer protection.

It may be appropriate for the FSB to assess which functions and activities should be performed by specific legal entities, ensuring the use of dedicated trusted and neutral third parties. The activity “custody/trust services for reserves assets” must, in our view, be one of those. Maximum protection, which may be desirable in the case of GSC, would be ensured by having reserves in the form of cash held in central banks and reserves in the form of securities held in CSDs.

### **b. Application of the PFMI**

Through their roles and responsibilities, some entities involved in global stablecoin arrangements can be assimilated to FMIs. It is therefore relevant to apply the appropriate PFMI and we support the ongoing analysis made by CPMI-IOSCO in that sense. Considering the importance to segregate critical activities between different specialised entities, including existing/traditional FMIs, it may not always be necessary to duplicate in a stablecoin arrangement framework some principles which are today followed by such existing FMIs.

This may be the case for the principle 11 that addresses the CSD activity. In their current state, CSDs can support and handle specific roles for global stablecoin arrangements, ensuring the safety and the continuity of the services offered by their insolvency remoteness and their proven resilience as systemic FMIs.

### **c. Reserve considered as collateral**

We would suggest changing the term ‘reserve’ by ‘collateral’. This term is more appropriate based on the mechanisms currently employed and the different types of assets which can potentially back stablecoins (cash, securities,..). Stablecoins are essentially asset-backed crypto-assets.

### **d. Other considerations**

As an FMI, one of our purposes is to ensure a safe and stable financial market. With that responsibility in mind and although not directly linked to our field of activity, the below questions may be considered further by FSB when setting out its recommendations.

- (i) How can regulation address the impact that stablecoins may have on the level of bank deposits and therefore on the ability of commercial banks to provide funding (as well as on the costs of funding), which in turn may affect the overall stability of the financial system?
- (ii) How can regulation help preventing the risk of runs on commercial banks, which could be exacerbated with the existence of global stablecoins, in times of market stress?
- (iii) How will the liability framework between the stablecoin arrangement participants be designed?
- (iv) How can the additional risks of settlement failure and fraud be addressed when stablecoin arrangement have an offline payment functionality?
- (v) Should regulation impose a certain degree of convertibility of the stablecoin into fiat currency?
- (vi) To what extent should global stablecoin arrangements be interoperable with existing payment systems?

---

<sup>1</sup> “[...] a stablecoin arrangement is generally understood as an arrangement comprised of different, interrelated functions and activities that can be provided by one or several entities.” (FSB consultative document – Page 14)

<sup>2</sup> “The entity or entities issuing the stablecoin or other entities may hold the reserve assets.” (FSB consultative document – Page 15)



### **3. Comments in detail**

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

We agree with the analysis

2. *Are there stabilisation mechanisms other than the ones described, including emerging ones, that may have implications on the analysis of risks and vulnerabilities? Please describe and provide further information about such mechanisms*

Not to our knowledge

3. *Does the FSB properly identify the functions and activities of a stablecoin arrangement? Does the approach taken appropriately deal with the various degrees of decentralisation of stablecoin arrangements?*

We believe that FSB identified well the different functions and activities performed in the frame of a stablecoin arrangement. From the perspective of a CSD, we would however like to comment on the operational design element of the activities related to the reserve, which we consider critical in the frame of a Stablecoin arrangement.

As a first generic comment, we would suggest changing the term 'reserves' by 'collateral'. This term would be more appropriate based on the mechanisms currently employed and the different types of assets which can potentially back the stablecoins (cash, securities and other,..). Stablecoins are essentially asset-backed crypto-assets.

#### Providing custody/trust services for reserve assets:

The consultative document highlights that the different functions and activities of a stablecoin arrangement could be provided by a single legal entity and that the entity issuing the stablecoin may hold the reserve assets. In our view, the possibility of having one legal entity performing all tasks could present significant risks, both in terms of financial stability and in terms of consumer protection. It would be appropriate for the FSB to assess which functions and activities should be performed by specific legal entities, ring fenced from the risk of bankruptcy of other key legal entities involved in the arrangement. The activity "custody/trust services for reserves assets" must, in our view, be one of those. Indeed, the insolvency remoteness of the entity in charge of the custody of the backed assets ('reserve' or 'collateral') will be a crucial factor for investors protection, market stability and to ensure trust towards the arrangement.

Seeing the criticality of the reserves as well as the requirement to have the entity in charge of its safekeeping ring-fenced, it may be relevant for the FSB to consider consolidating the roles linked to the reserves in one function dedicated to 'Reserves' rather than considering them as activities within the "Issuance, redemption and stabilisation of value of coins"

To maximize trust in the arrangement, the provider of custody/trust services for reserve assets should be regulated and of the highest creditworthiness possible. For that reason, when the reserves of a global or systemically important stablecoin is composed of securities, we believe there may be a merit for these assets to be safekept in CSDs, which are low risk entities subject to appropriate legislation/regulation and proven safe places, including in times of crisis and market turmoil (which was the intent of the PFMI).

A key point to consider in relation to a stablecoin arrangement will be the design of the liability framework for participants. Absolute clarity on the contractual relationships in the system between the different service



providers and the nature of the rights associated with the stablecoin, including whom these can be exercised against and who can enforce those rights, will be crucial.

#### Managing reserve assets

As a generic comment, we believe there are at least two important roles for the management of the collateral to be considered:

- The issuer of the stablecoin has the responsibility to ensure that the underlying collateral always cover the existing outstanding stable coins, reliably and continuously.
- The manager of the collateral is designated by the issuer (and is responsible for e.g. valuation, eligibility and concentration checks, substitution and realignments of assets in the collateral pool, etc.). This collateral manager may appoint a (tri-party) collateral management provider.

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

Making a distinction between “stablecoins” and “global stablecoins” might fail to completely address the risks of financial stability, monetary policy transmission and monetary sovereignty that those type of asset may represent. From an economic and functional perspective, stablecoins and global stablecoins seem to be identical. For example, a stablecoin operating across only two large jurisdictions with different currencies can represent significant risks, while it would not be considered “global”.

A distinction between “Global Systemically Important”, “Domestic Systemically Important” and “non-systemically important” stablecoins could address that problem. The “basic” legislative requirements could apply to all stablecoins while some specific additional requirements may apply to those considered of systemic or global nature. Global standard setting bodies may be tasked to determine systemic importance (similar as designation as G-SIFIs and local SIFIs). The metrics used to determine systemic importance could be based on total value of stablecoins in circulation, number of countries it is used in, whether G-SIFIs or FMIs use the coin (wholesale versus retail use), transaction value, etc.

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

We agree with the analysis

#### *6. Do you agree with the analysis of the vulnerabilities arising from various stablecoin functions and activities (see Annex 2)? What, if any, amendments or alterations would you propose?*

We agree with the analysis

#### *7. Do you have comments on the potential regulatory authorities and tools and international standards applicable to GSC activities presented in Annex 2?*

Through their roles and responsibilities, some entities involved in stablecoin arrangements can be assimilated to FMIs. Therefore, we agree that it is relevant to apply the appropriate PFMI, and we support the ongoing analysis made by CPMI-IOSCO in that regard.

Considering the importance of segregating critical activities among different specialised legal entities, it may not always be necessary to duplicate in a dedicated stablecoin arrangement framework some principles which are currently followed by existing FMIs. This may be the case for the principle 11 that addresses the CSD activity. In their current state, CSDs can support and handle specific roles for global stablecoin arrangements, ensuring the safety and the continuity of the services offered by their insolvency remoteness and their proven resilience as systemic FMIs.



*8. Do you agree with the characterisation of cross-border issues arising from GSC arrangements?*

We agree with the characterisation made

*9. Are the proposed recommendations appropriate and proportionate with the risks? Do they promote financial stability, market integrity, and consumer protection without overly constraining beneficial financial and technological innovation?*

- a) Are domestic regulatory, supervisory and oversight issues appropriately identified?*
- b) Are cross-border regulatory, supervisory and oversight issues appropriately identified?*
- c) Do the recommendations adequately anticipate and address potential developments and future innovation in this sector?*

We agree with the recommendations made

*10. Do you think that the recommendations would be appropriate for stablecoins predominately used for wholesale purposes and other types of crypto-assets?*

Wholesale stablecoins

Although the risks posed by wholesale stablecoins are different than those of retail stablecoins, notably in terms of consumer protection, they could still be a source of financial stability and systemic risks. For that reasons, we believe it may indeed be relevant to apply similar recommendations. There may however be differences as to whom can use these instruments (wholesale customers) and less focus on retail protection.

Other types of crypto-assets

Similar recommendations and clarifications would be appropriate for all crypto-assets which may induce systemic risks, such as security tokens. PFMI should be followed by entities involved in the provision of key functions and activities related to the servicing of those crypto-assets. The principles to be applied will depend on the type of crypto-asset serviced and the roles performed by those entities.

*11. Are there additional recommendations that should be included or recommendations that should be removed?*

We agree with the list of recommendations.

We would still recommend FSB to highlight that regulators should ensure that entities performing critical roles within a GSC arrangement (Issuer, reserve custody,..) are qualified and suitable to perform such role. This could be ensured via mandatory licensing, which would ultimately ensure trust in the GSC and could enhance the stability of operations.

*12. Are there cost-benefit considerations that can and should be addressed at this stage?*

No comment

**For more information, please contact:**

Ilse Peeters, Head of Government Relations ([ilse.peeters@euroclear.com](mailto:ilse.peeters@euroclear.com))

Sébastien Van Campenhoudt, Government Relations ([sebastien.vancampenhoudt@euroclear.com](mailto:sebastien.vancampenhoudt@euroclear.com))