

**KSD'S RESPONSE TO THE
FINANCIAL STABILITY BOARD CONSULTATION:
ADDRESSING THE REGULATORY, SUPERVISORY AND OVERSIGHT
CHALLENGES RAISED BY "GLOBAL STABLECOIN" ARRANGEMENTS**

Korea Securities Depository (KSD) is the central securities depository of the Republic of Korea. As a member of the Asia Pacific CSD Group Association (ACG), we are pleased to have an opportunity to review the Financial Stability Board Consultation and submit our response to it.

We would first like to express our sincere gratitude and appreciation to the tireless efforts of the Financial Stability Board (FSB) to enhance market stability and introduce innovative financial instruments without any negative side effects in the financial ecosystem.

As one of the key infrastructures of the market, we, CSDs, have made all-out efforts to provide stable, efficient services, while contributing to maintaining a well-functioning financial ecosystem. Therefore, it is natural that we have a keen interest in the emergence of new financial instruments, like global stablecoins.

Below are the comments from KSD for your reference.

<COMMENTS IN DETAIL>

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

The consultative document defines that a coin is 'stable' when it has both stabilization mechanism and a combination of multiple functions. The potential problem lies in the fact that the definition could also be applied to the "Security-Tokens" exactly the same way.

We believe that more discussion on the definition and sub-categorization of digital assets including stablecoins will be necessary. For applicable regulations could vary depending on how we define and understand the characteristics of each and every digital asset including stablecoins.

2. Are there stabilization 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.

From our perspective, the described stabilization mechanisms seem to be sufficient.

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 decentralization of stablecoin arrangements?

We believe that the consultation document properly identified the different activities.

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

Global stablecoin (GSC)

A stablecoin with a potential reach and adoption across multiple jurisdictions and the potential to achieve substantial volume.

We do not believe that the definition of GSC on the consultation document clearly separates GSC from other stablecoins: seemingly, GSC and other stablecoins are the same except for the factors like risk size and potential impact on the economy.

From our point of view, we need to distinguish (global) stablecoins from securities-related tokens before we differentiate GSC from other stablecoins. In addition, when we discuss such issues, issuer-related ones will be more relevant than those about the purpose of digital assets.

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 fully agree with the analysis of potential risks to financial stability arising from GSC arrangements.

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 of the vulnerabilities. Still, we would like to add the following comments:

- “hard-fork” which has a similar impact of a monetary reform of the real world

- It seems that an ‘**anonymous**’ transaction and/or network is not clearly excluded in the consideration (page 17, 29). However, the proper identification of every participant in financial transactions is extremely important in protecting our clients. Furthermore, to accomplish the AML/CFT objectives, it should be mandatory to exclude the ‘anonymous’ use cases whether they are (global) stablecoin or security-tokens.

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

We have no comments.

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

We agree with the characterization of cross-border issues.

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?

We agree with the proposed recommendations.

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

From our point of view, the recommendations would be appropriate for stablecoins for wholesale purposes and other types of crypto-assets with some minor adjustments.

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

We believe that no recommendations should be removed.

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

We believe that a step-by-step approach, for example introducing stablecoins to the wholesale area first and then to the retail area, could be a good idea in order to have a clear idea about the cost-benefit implications.