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FSB GSCs consultation process

Background docs

1. FSB, Regulation, Supervision and Oversight of "Global Stablecoin" Arrangements, October 2020
2. FSB, Review of the FSB High-level Recommendations of the Regulation, Supervision and Oversight of "Global Stablecoin" Arrangements: Consultative report, October 2022
3. FSB, International Regulation of Crypto-asset Activities, Questions for consultation, October 2022

Suggested question to answer

11. *Do you have comments on the key design considerations for cross-border cooperation and information sharing arrangements presented in Annex 2? Should Annex 2 be specific to GSCs, or could it be also applicable to crypto-asset activities other than GSCs?*

Response from Stellar Development Foundation

Do you have comments on the key design considerations for cross-border cooperation and information sharing arrangements presented in Annex 2? Should Annex 2 be specific to GSCs, or could it be also applicable to crypto-asset activities other than GSCs?

Expanding access to economic opportunity and providing safe, affordable, and efficient payment options remain top policy priorities in both advanced and emerging economies, according to data collected by the Bank for International Settlements,[1] and have driven interest in digital currencies, including CBDCs and privately-issued stablecoins. A well-designed stablecoin could promote inclusion and foster economic growth by expanding access to and usage of affordable financial services. Specifically, stablecoins could:

1. Reduce the cost of cross-border payments
2. Expand modes of payments beyond financial institutions
3. Reduce merchant acceptance costs of digital payments
4. Transition individuals and Micro, Small and Medium Enterprises (MSMEs) from the informal to the formal economy
5. Develop an innovative and competitive local payments ecosystem
6. Foster interoperability

[1] Bank for International Settlements, Rise of central bank digital currencies: drivers, approaches and technologies, Updated dataset, January 2022; and, Ready, steady, go? – Results of the third BIS survey on central bank digital currency, January 2021.

Criteria for a well-designed stablecoin

Stablecoins issuers are required to set up an off-chain reserve that holds the asset backing the stablecoin. Holders of a stablecoin receive an equivalent amount of the stablecoin's underlying asset when the stablecoin is cashed out or redeemed.

There are a number of questions to ask when analyzing stablecoins. We focus on four important ones: (1) how is the stablecoin collateralized, (2) how transparent are the reserve arrangements, (3) what are the local regulatory and licensing requirements for issuing the stablecoin in a jurisdiction, and (4) what are the use cases — for what purposes will the stablecoin be used.

Stablecoins are generally collateralized with underlying cash and cash-equivalents such as short-term government bonds. These reserves should be deposited at insured depository institutions and held in segregated accounts. Attestations and audits should be performed regularly (on a monthly or quarterly basis) on the stablecoins's reserves and should be public.

Why do these questions matter? The asset holder should know that the issuer can exchange the token for fiat at any point in time. Highly liquid assets give greater assurance that the issuer can do that.

Key benefits of a well-designed stablecoin

- **Reduce the cost of cross-border payments**

  The global average cost of cross-border payments remains very high, at 6.04 percent of the amount sent. This is more than double the United Nations' Sustainable Development Goal target of 3 percent.[2]

  The high costs of remittance payments have real-world impacts on individuals and businesses. High fees complicate the ability of migrants to send money home to their families, of MSMEs to import products from foreign suppliers, and of nonprofit organizations to deliver relief funds abroad. High fees result in suboptimal outcomes for economies and societies at large.

  A well-designed stablecoin–particularly if built on an open network–would facilitate cross-border payments, including remittances and business-to-business payments that finalize in seconds and cost fractions of a cent, mainly due to the reduction of intermediation.

- **Expand modes of payments beyond financial institutions**

  Although global account ownership increased from 51 percent to 76 percent between

[2] World Bank Group, Remittance Prices Worldwide Quarterly, December 2021

2011 and 2021,[3] access to deposit accounts remains a challenge.

Development of a well-designed stablecoin could support financial inclusion for this unbanked population through the design of low-cost solutions both for consumers and MSMEs, specifically merchants accepting payments. Adoption of stablecoins could lead to the development of a real-time payments system, allowing for transactions to settle and finalize in seconds, notwithstanding the day and time of the transaction.

- **Reduce merchant acceptance costs of digital payments**

  Costs remain high for merchants accepting retail payments due to the need for multiple intermediaries to complete a transaction. In recent years, retailers have adopted innovative–and more affordable–tools such as QR payments and mobile money. However, merchants still face steep fees in order to accept digital payments made through a debit and/or credit card.

  A well-designed stablecoin would reduce merchants' acceptance costs due to the efficiency to move value and the removal of intermediaries required to process a transaction.

- **Transitioning individuals and MSMEs from the informal to the formal economy**

  According to data from the IMF, the informal sector accounts for about a third of low- and middle-income countries' economic activity, and up to 15 percent in advanced economies.[4]

  A well-designed stablecoin could be the entry point for individuals and MSMEs to the formal financial system and economy. A stablecoin could help those adults and MSMEs operating in the informal economy to start building a credit history based on their payments behavior. This would allow them to access new financial products, from lending and savings to investments and insurance.

- **Develop an innovative and competitive local ecosystem**

  Development of well-designed stablecoins could be an opportunity for the financial sector to provide the unbanked and underbanked with innovative services, including offline and restricted or limited connectivity products. These services would help address inclusion issues in rural and remote regions.

- **Foster interoperability**

  A well-designed stablecoin could provide instant real-time payments, so payees (including merchants) could receive funds instantly. The core ledger could be built with relatively simple functionality, so that it would be as efficient and cost-effective as possible, expanding the offering of financial services.

  An effective design model should prioritize interoperability, permitting that any stablecoin

[3] World Bank Group, Global Findex Index, 2021

[4] IMF, What is the informal economy? December 2020

account would be able to pay any other stablecoin account, whether this is a commercial bank, a digital wallet provider, or other financial entity. A stablecoin should also be interoperable with cash and electronic money at a domestic and retail level. This would be an important improvement over existing payment systems, which often lack interoperability.

Conclusion

A well-designed stablecoin could bring positive effects to inclusion and the broader economy. It could improve payments efficiency and safety but more importantly could contribute to social inclusion, help transition individuals and MSMEs to the formal financial system and economy, develop an innovative and competitive local ecosystem, reduce the cost of remittances for migrants, and foster interoperability in the financial sector.