Committee on Payments and Market Infrastructures (CPMI) and Board of the International Organization of Securities Commissions (IOSCO) consultation on the application of the Principles for Financial Market Infrastructures to stablecoin arrangements

ABI's response

1st December, 2021

Questions for consultation

The CPMI and IOSCO are inviting comments on this consultative document and the questions set out below. Comments should be sent to both the CPMI secretariat (cpmi@bis.org) and the IOSCO secretariat (consultation-03-2021@iosco.org) by 1 December 2021. Comments will be published on the CPMI and IOSCO websites unless respondents expressly request otherwise.

Applicability of the PFMI to SAs

1. Is it clear when SAs are considered FMIs for the purposes of applying the PFMI?

Stablecoin "transfer function" enables the transfer of coins between users and typically entails the operation of a system, a set of rules for the transfer of coins between or among participants, and a mechanism for validating transactions. ABI supports the consultation document view that the mere transfer function of a stablecoin arrangements should be compared to the transfer function performed by other types of financial market infrastructure (FMIs).
The Association wants to emphasise the accuracy and exhaustiveness of the analyses carried out in mapping the distinctive functions of stablecoins arrangements and in defining the additional risks arising from the governance and transfer mechanisms is pointed out. It will be important to continue with the analysis and monitoring of these initiatives in order to assess the practical applicability of these principles. And this is true especially to deep dive in future works on Oversight and regulation (Responsibilities), further analysis on specific features of stablecoins denominated or pegged to a basket of fiat currency as well as interactions with other non-FMI functions and stablecoins service providers (e.g. Banks, FMI, nonBank, non FMI)

Considerations for determining the systemic importance of an SA

2. Are the suggested considerations for determining the systemic importance of SAs clear, comprehensive and useful? Are there any risks or considerations missing?

The need for a common framework of rules at international level is stressed. In this sense, we welcome the alignment of the conditions for the valuation of a significant stablecoin to the European Regulation, still under definition, which will introduce rules for all EU countries in this field. It will be equally important that the thresholds identified for each of the condition set out in the consultation are the same across different countries.
Having said that, any stablecoin arrangement would have the potential to become systemic in a very short space of time considering the speed with which a user could have them available. To this end, it is useful for the competent authorities to have tools to carry out frequent checks on the various initiatives. As an alternative a list of globally systemically important

SAs could be published by the FSB on the basis of the methodology expressed in the document.
Further thought could be done on the conditions of classification. Firstly, it might be useful to consider the possibility that, for the purposes of categorisation as systemic, the conditions laid down do not all have to be met holistically, but rather that e.g., three out of the four conditions may be met. Secondly, it is useful to point out that some stablecoin arrangements, particularly those that are decentralised, use different drivers from centralised stablecoins. Further conditions to take into account could be the total value locked within DeFi initiatives or the total amount of loans (in form of stablecoins) granted with those solutions.

Governance

3. Is the guidance provided on governance clear and actionable to inform how SAs will need to ensure clear and direct lines of accountability and set up governance arrangements to observe the PFMI?
4. What are the challenges that SAs may face due to the use of distributed and/or automated technology protocols and decentralisation, when seeking to observe Principle 2 on governance, in particular when ensuring the clear allocation of responsibility and accountability?

Concerning the governance of these initiatives, the difficulty in applying the principles (Principle 2) arising from the decentralised nature of some stablecoin arrangements is strengthened. Specifically, the transfer function of some stablecoins can only be performed by software according to rules predefined by the participating parties (who have encoded them in a set of smart contracts) and there can be no identifiable entities or legal persons intervening as responsible in the transfer function. As an example, it is important to emphasise that no one could intervene interrupting a transfer or refusing an incoming payment where certain regulatory requirements are not met.

Thus, it is essential for both decentralised and centralised solutions to clearly define the roles and responsibilities of the various participants that may intervene in the decision-making process of a stablecoin arrangement and in its transfer function. Often, in the most decentralised infrastructure the actors involved in the decision-making process are the users or holders of specific tokens.

Interdependencies

5. Is the guidance on Principle 3 clear and actionable to inform how SAs will need to comprehensively manage risks from other SA functions and entities and their interdependencies?

We welcome the necessary considerations made upon the interdepencies described especially for the potential financial stability risks they may pose. By the way we are in favour of a close global alignement of regulators when addressing the various activities of stablecoin arrangements.

> *Settlement finality*
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> 6. Is the guidance on Principle 8 on settlement finality clear and actionable to inform how SAs will need to manage risks arising from a misalignment between technical and legal finality?

Initiatives using a distributed ledger rely on consensus mechanisms to ensure the technical irrevocability of a transfer. However, specific protocols implemented by the networks may involve different processes that must be agreed upon by its operators or participants in order to achieve irrevocability and make the transfer enforceable against third parties. Due to the heterogeneity of the techniques used to achieve a transfer, it will be responsibility of the stablecoin arrangement to decide which moment is to be deemed irrevocable and to establish a hierarchy between records in case of mismatch.

> *Money settlements*
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> 7. Is the guidance on Principle 9 on money settlements clear and actionable to inform how SAs will need to manage risks associated with the use of a stablecoin as a settlement asset? In particular, is the guidance clear on the considerations which an SA should take into account when choosing a stablecoin as a settlement asset with little or no credit or liquidity risk as an appropriate alternative to central bank money?

> *General*
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> 8. Are there other issues or principles of the PFMI where additional guidance for SAs would be useful? If so, what is the issue identified and how is it notable for SAs?
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> 9. Are there any terms used in this report for which further clarification would be useful for SAs when seeking to observe the PFMI?

We acknowledge that the rapilily evolving nature of SAs and digital payment instuments makes designing oversight system ex ante very challenging therefore such an effort by CPMI-IOSCO is very much appriciated. Nonetheless, we wonder whether further issues related to transparency, competition and consumer protection should have been included too. As well as considering the macroeconomic implications including monetary soverreignty issues but also the AML/CFT issues.

Some of the issues that are not tackled in the document, including some which are said to be out of scope, may have global financial stability implications over the medium or long term, and therefore would need more attention that we wish you will address in your future works. Indeed, stablecoins may generate risks particulary if they are adopted at a significant scale, in turn they may bear risks in terms of asset contagion, collateral and accountability. As it has been highlighted in different studies, it should not be ignored systemic risks that stablecoins potentially pose to the financial system thereby undermining sovereign currencies.