Basel Committee on Banking Supervision

Re： Disclosure of cryptoasset exposures

January 31, 2024

Dear Basel Committee on Banking Supervision,

I would like to provide feedback on the "Classification condition assessment" and "Materiality" issues discussed in your consultative document on the Disclosure of Cryptoasset Exposures.

Scenario 1: VASP provides exchange between virtual assets and fiat currencies

When a bank serves as the fiat currency account provider for a VASP, the fiat account inevitably bears indirect risk from all cryptoasset-to-fiat exchanges. Regardless of whether the cryptoassets are classified as Group 1 or Group 2, in reality the fiat account provided by the bank bears risk from all exchanges facilitated by the VASP. For example:

Stablecoin issuer AAA designates Bank CCC in Country BBB as the custodial bank for cash reserves backing stablecoin DDD. Bank FFF in Country EEE provides fiat account services to VASP GGG. Customers of VASP GGG can exchange their holdings of stablecoin DDD for fiat currency, with FFF Bank responsible for wiring funds to customer bank accounts per VASP GGG instructions. FFF Bank has no redemption rights over the cash reserves held by CCC Bank. If VASP GGG does not submit redemption requests to stablecoin issuer AAA, FFF Bank still indirectly bears the risk of VASP GGG customers exchanging stablecoin for fiat.

Without adjusting classification considerations, should there be clear guidance on estimating the approximate total indirect risk exposure in scenarios like this to provide direction to banks exploring cooperative relationships with VASPs?

Scenario 2: Bank provides guarantee to VASP as compensation for potential losses

According to the SFC Guidelines for Virtual Asset Trading Platform Operators 10.22(c) - "A Platform Operator should have in place a compensation arrangement approved by the SFC to cover the potential loss of 50% of client virtual assets in cold storage and 100% of client virtual assets in hot and other storages held by its Associated Entity (referred to as the “Compensated Amount”). The arrangement should include any or a combination of the options below: (c) bank guarantee provided by an authorized financial institution in Hong Kong."

If a VASP HHH in Hong Kong obtains a $200 million bank guarantee from Bank JJJ as 50% loss compensation, does this $200 million bank guarantee pose indirect cryptoasset exposure concerns for Bank JJJ? Is there guidance on the maximum indirect exposure limit Bank JJJ can undertake? More in-depth discussion seems warranted.

I would appreciate if you could review my feedback and make any necessary edits to ensure it is conveyed in a professional manner suitable for submission to the BIS consultation. Please let me know if you would like me to clarify or expand upon any points. Thank you for your assistance.

Yours sincerely,

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