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to the BASEL COMMITTEE
ON BANKING SUPERVISION
Basel, Switzerland

OPINION
on Disclosure of crypto-assets exposures

Dear Colleagues from the Basel Committee on Banking Supervision,

Thank you for the opportunity to express my opinion with regard to the Disclosure of crypto-assets exposures (hereinafter — the Disclosure) which has been published by the Basel Committee on October 17, 2023.

The opinion is written in line with the author's understanding of the perspectives of international law, practical considerations regarding the compliance of financial institutions, and the author's perception of the current state of world affairs. It suggests potential vulnerability in the provisions of the Disclosure.

Hope that any thoughts from the opinion are interesting to the BCBS.

October 21, 2023 Iaroslav K. Iarutin

The Disclosure of crypto-assets exposures (hereinafter — the Disclosure) points out that the Basel Committee is to facilitate consistency of disclosures. The issue is whether the proposed measures for accounting risks (market, credit, and operational) will accurately reflect the existing landscape of accumulated risks.

There is no doubt that crypto-assets have a legal nature that is fundamentally different from traditional types of assets. But the accountancy proposed by the BCBS is methodologically similar to those for traditional assets. It could affect the rise of any unknown risks that would be unobservable to regulators and participants in financial markets. Furthermore, since the Disclosure is primarily targeted to global institutions, the situation could pose unprecedented threats to financial stability on a global scale.

For instance, if a bank introduces a new form of money (i.e., any fiat currency tokens, stablecoin) to facilitate transnational payments within the global perimeter of its presence, there are additional regulatory risks ('country crypto-risk').

Each group of crypto-assets, even Group 1a, circulates without regard to borders of any particular jurisdiction. Besides "global" requirements on compliance, countering insider dealing, FATCA/CRS, AML/KYC, etc., banks should follow restrictions arising from national laws and regulators' positions at least where they do conduct business. The impact of unaccounted country-based risks would definitely be strengthened by the contradiction between current compliance practice and evident monetary tendencies (i.e. monetary segregation of large financial institutions with own fiat currencies' tokens as well as formation of supranational — and fully decentralised — monetary substance). And it is augmented by the fact that the crypto-financial landscape is rapidly globalising. Thus, the world community is better to recommend this 'risk management lacuna' to be accounted.

A 'global perspective' is necessary for prudential treatment of crypto-asset exposures. To ensure the global integrity of financial markets, an additional indicator is to be implemented. The indicator should reflect the extra regulatory risk that arises from the geographical presence of a financial institution and legal allocation of its crypto-assets and liabilities.