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and

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Australian Payments Network (AusPayNet) welcomes the opportunity to respond to the Committee on Payments and Market Infrastructures' and the Board of the International Organization of Securities Commissions' consultative report '*Application of the Principles for Financial Market Infrastructures to stablecoin arrangements*'.

About AusPayNet

AusPayNet is the industry association and self-regulatory body for the Australian payments industry. In this core role, AusPayNet manages and develops regulations, procedures, policies and standards governing payments clearing and settlement within Australia.

We bring together service providers, government, regulators and end-users to improve the Australian payments system. We do this by promoting competition and innovation, delivering efficiency and controlling systemic risk; this creates a shared purpose that engenders confidence in the payments system. We have over 140 members, including financial institutions, merchants, payment system operators, and other payments industry stakeholders.

In forming this response, AusPayNet has leveraged that membership in consulting financial institutions (primary respondents given the focus of the consultative document), payment system operators, government and regulators on the specific questions raised in the consultative document, to provide a response on behalf of the Australian payments industry.

Summary Overview

There is agreement that the Principles for Financial Market Infrastructures (PFMI) provide an important framework for stablecoin arrangements (SA). In doing so there is acknowledgement that challenges may arise in applying PFMI where local licensing or local legal frameworks take precedence.

Responses to Specific Questions

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

There is agreement that SAs are considered financial market infrastructures (FMI) for the purpose of applying the PFMI.

Our members provided additional commentary that supported the definition of stablecoins as set out in the consultative report. Our members further recommended that the definition should be accompanied by use cases and examples to help with understanding.

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

Although it is early days in terms of stablecoin issuance in Australia, most of the members acknowledged that the risks will be similar to those identified by the US Presidential Working Group. The risks are articulated below along with some key risk mitigation commendations:

1. **Financial instability**: caused by disruption or outage within the stablecoin value chain. Some examples of disruption are cybersecurity lapses due to its digital nature, and large fluctuations in the value of the asset tied to the operational or financial failure of traditional payments systems. This can lead to distrust in the national financial system and consumers being unable to access their money and make payments.

   Recommendation 1*. Consider and limit the allowable types of reference assets*.

2. **Consumer harm**: caused by bank runs or organisational failures, limited consumer protections and depreciating assets. Examples of this include maladministration by businesses in the value chain, consumers not understanding the product or service, and consumer data being lost or misused. This can cause consumers to lose money through the inability, uncertainty or failure of a claim for redemption. In addition, there are risks of fraud, and financial crime.

3. **Anti-competitive concentration of economic power**: caused by vertical or horizontal market integration by companies already having dominant market power and consumer data. Were a stablecoin created by a company with such market power able to plug into existing online networks, it would be able to scale and potentially monopolise a country's money and payments system. This could lead to anti-competitive behaviours, severe implications for financial stability and even monetary sovereignty, including the ability for central banks to conduct monetary policy.

   Recommendation 2*. Explore a pre-regulation governance framework for greater accountability and transparency.*

National security threat: caused by actors who use stablecoins to fund malicious activities such as terrorism. This is because the actors may not be required to identify themselves but can still tap into the benefits of cross-border payments. Their transactions can also be hidden when the stablecoins are encrypted and transferred using blockchain/distributed ledger technologies.

Recommendation 3*. Review and update regulatory frameworks on digital identity, cybersecurity and operational resilience.*

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?

There was broad agreement among our members on the guidance to provide clear governance and guidance. It was also recommended that the principle of 'same risk, same rules' should apply globally, an example being the application of Know Your Customer requirements as set out by the Financial Action Task Force (FATF).

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?

No additional challenges were identified.

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?

Yes.

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?

Yes.

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?

There was general agreement on the guidance on Principle 9.

It was noted that for risk management, the stablecoin needs to be convertible into other liquid assets as soon as possible (at a minimum by the end of the day and ideally intraday). In this regard, it was also noted that it was preferable that such convertibility be permissive, and that mandatory conversion would be more concerning as it would defeat the purpose of a stablecoin system operating as an alternative to, but interoperable with, fiat currency.

It was further noted that SA may be governed by licensing regimes that may not adequately recognise the risk, potentially exacerbating financial instability, causing consumer harm, concentrating economic power, exacerbating any lack of inclusivity, and creating AML/CTF failure. Consequently, there was a minority view that, given these risks, all SA should be considered as systemically important.

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?

No other issues or principles of the PFMI were indicated as requiring further guidance.

9) Are there any terms used in this report for which further clarification would be useful for SAs when seeking to observe the PFMI?

None were identified.

We appreciate the opportunity to consult with both CPMI and IOSCO on this important issue and welcome any further dialogue on applying the Principles for Financial Market Infrastructures to stablecoin arrangements. Please contact David O'Mahony, Business Analyst (domahony@auspaynet.com.au) If you have any further questions.

Yours Sincerely

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