THE BANKING ASSOCIATION SOUTH AFRICA

Tel +27 11 645 6700
Fax +27 11 645 6800
P O Box 61674
Marshalltown 2107
www.banking.org.za

3rd Floor Building D
Sunnyside Office Park
32 Princess of Wales Terrace
Parktown 2193

20 March 2024

Bank for International Settlements
Centralbahnplatz 2
4051 Basel
Switzerland
https://www.bis.org/bcbs/commentupload.htm

Our ref: #106649

Your ref: #106573

Direct ☎: +27823127964

E-✉: markb@banking.org.za

Dear sir / madam

Cryptoasset standard amendments consultative document

We appreciate the opportunity to comment on the Basel Committee on Banking Supervision consultative document cryptoasset standard amendments.

Our commentary will focus on Annexure 1 to the consultative document, the proposed edits to the cryptoasset chapter (SCO60) of the Basel Framework.

Add: SCO60.12 (2) (a) (i) Footnote 5

[5] Supervisors may specify: (i) a maximum maturity limit for individual reserve assets; and/or (ii) a portfolio weighted average maturity limit for a pool of reserve assets. In case supervisors allow longer-term assets as reserve assets, the level of over collateralisation should be sufficient to cover potential declines in those asset values so that the cryptoassets remains redeemable at all times for the peg value, even on stress period and volatile markets.

We would **recommend** that where longer-term assets are allowable as reserve assets, the level of overcollateralization should be prescribed by a minimum haircut, as determined by stress tests. A definition of longer-term asset would be useful.

Add: SCO60.12 par 4(e):

(4) Management of reserve assets. The governance arrangements relating to the management of reserve assets must be comprehensive and transparent. They must ensure that:

(e) The composition and value of the reserve assets are publicly disclosed on a regular basis. The value and the outstanding amount of cryptoassets in circulation must be disclosed at least daily and the composition must be disclosed at least weekly. This disclosed information must be verified by an independent third party at least semi-annually to confirm its completeness, fairness of valuation and accuracy.

The requirement is onerous on banks as the reserve assets have a requirement to be subject to an independent external audit at least annually. This would have a cost implication and if processes are in line with audit then annually should be sufficient.

We would **recommend** that this be removed or alternatively that an additional audit be undertaken within 6 months of the initiation of the stable coin, whereafter an annual external audit can be undertaken.

Add: SCO60.12 (4) (d)

(4) Management of reserve assets. The governance arrangements relating to the management of reserve assets must be comprehensive and transparent. They must ensure that:

(d) An appropriate risk management framework exists to assess and monitor the risks of reserve assets, including but not limited to market risk, credit risk, concentration risk and liquidity risk. Examples include on-going monitoring of deposit counterparties and custodians, daily valuation of reserve assets, and stress testing.

We would **recommend** that examples should rather represent *prescribed minimum criteria* e.g.,

(d) An appropriate risk management framework exists to assess and monitor the risks of reserve assets, including but not limited to market risk, credit risk, concentration risk and liquidity risk. ~~Examples include~~ As a minimum, these should include on-going monitoring of deposit counterparties and custodians, daily valuation of reserve assets, and stress testing.

Add: SCO60.20 (3)

(3) For cryptoassets that are classified as Group 1b, a bank must perform due diligence to ensure that they have an adequate understanding, at acquisition and thereafter on a regular basis (at least [monthly/quarterly/annually]), of the stabilisation mechanism of the cryptoasset and of its effectiveness. As part of that due diligence, a bank must conduct statistical or other tests demonstrating that the cryptoasset maintains a stable relationship in comparison to a reference asset (basis risk test). Banks must make available to their supervisors upon request the results of such tests, and the supervisors may override the classification based upon the test results.

We would **recommend** that the minimum frequency for the performance of statistical tests, that confirm the cryptoasset maintains a stable relationship to the reference assets, should be prescribed i.e., monthly or quarterly e.g., Tether (USDT).

This may also benefit from inclusion in back testing, using periods of market stress, particularly during previous stabilisation dislocations e.g., Terra-Luna case.

We trust that these comments will add some value to your deliberations.

Assuring you of our best attention at all times.

Yours sincerely

M Brits

Mark Brits
Head: Prudential Division