Börse Stuttgart Statement

On the second BIS Consultation about the Prudential Treatment of Cryptoasset Exposures

Stuttgart, 23 September 2022

Börse Stuttgart Group appreciates this opportunity to take part in the second BIS consultation about the prudential treatment of cryptoasset exposures.

Börse Stuttgart Group was the first regulated European Exchange Group deeply exploring new technologies as blockchain and distributed ledger technology in the field of digital finance. Today we operate both, a regulated market and execution venues for cryptoassets. Börse Stuttgart Digital Exchange is a multilateral venue and BISON is an app-based bilateral trading system. Both are accomplished by a safe custody service provider within our group called blocknox. While retail investors can trade at traditional exchanges through intermediaries like brokers or banks only, our digital services allow retail investors to benefit from direct access to capital markets. As a high standard of investor protection has ever been part of our DNA, our digital finance applications are designed in a transparent manner adapting regulatory safeguards and investor protection rules of traditional exchanges to these new digital services. In fact, we are applying the idea of the proposed EU Markets in Cryptoassets Act (MiCA) to regulate crypto assets and Crypto Asset Service Providers (CASPs) already in practice. We are convinced that a safe and efficient regulatory environment is key to uphold a high level of investor protection, fair competition and financial stability in financial markets.

Therefore, we highly welcome the adjusted differentiation between Group 2a and 2b crypto-assets included in the second consultation paper, especially the possibility to allow for netting and the adjusted risk weighting for Group 2a crypto-assets. Boerse Stuttgart Group fully agrees with applying a risk weighting for Group 2a cryptoassets of 100% which will comprise ETNs, ETFs and the largest crypto currencies. However, it would be important to clarify the criteria set out in paragraph 60.60 (2) (b) as there is no database publicly available for a detailed calculation.

The application of the 1250% risk weighting for Group 2b cryptoassets will still pertain the majority of todays traded cryptoassets. Börse Stuttgart Group strongly believes that this approach would lead to low demand for cryptoassets from institutional clients. Instead, we would suggest comparing high-risk cryptoassets with high-risk or volatile financial instruments already accessible on the market. According to this approach, a risk weight could be around 400%. Appling a 400% risk weight would also be consistent with the Basel framework, which assigns this risk weight to speculative unlisted equity exposures. Besides, this would be in line with the "same risks, same rules" principle proposed by the BIS in its consultation papers.

Furthermore, we have great understanding that an excessive risk concentration in cryptocurrencies should be prevented. However, we believe that a limit of 1% of Tier 1 capital without considering diversification and netting effects is too restrictive. In this way, small and specialized institutions do not have enough room to provide their services in the market. Therefore, we would welcome a distinction between investment firms and banks, as it cannot be in the interest of the Basel framework to weaken the financial market. For this reason, we suggest for investment firms to increase the threshold to 5% and to consider netting effects per cryptocurrency. Additionally, we propose to introduce an absolute threshold of EUR 15 million in line with the Large Exposure Regime according to Article 395 CRR. Otherwise, investment firms would be weakened in their role as market makers, which would harm market integrity.

Moreover, we would appreciate further clarification on how investment firms should implement the prudential treatment of crypto-asset exposures. Investment firms in the EU are in many cases subject to the same capital requirements as banks under the investment firm regulation (IFR), but there is a lack of clarity in the cases where they are not covered by this regulation. For example, the requirements for the calculation and composition of own funds, as well as for the required amount from market price risks (K-NPR) correspond to the regulations from the CRR. For other K-factors, the consideration of cryptocurrencies would still have to be clarified.

In general, we believe the outlined approach could have provided already more flexibility in terms of risk weighting and exposure limit. In addition, the consultation paper could have presented a holistic approach for investment firms. Börse Stuttgart welcomes to create a risk-scheme, considering the volatility and the new technology risk. A more flexible approach would allow investment firms and banks to offer these new asset class in their regulated ecosystem to their clients in a trusted environment ensuring investor protection. Cryptoassets would be available for a larger amount of investors used to invest in their well-known environment where they can trust their regulated institution. Finally, such more flexible approach would also contribute to reduce volatility in crypto markets and thus lead to more financial stability.

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