

Response to BIS from Global Standard

[Consultative Document: Prudential treatment of cryptoasset exposures](#)

Q1. What are your views on the Committee's general principles?

The Committee's general principles are suitable, even laudable, that is as to:

- Same risk, same activity, same treatment;
- Simplicity;
- Minimum standards...

But they are predicated on invalid premises and definitions that will cause any laws or regulations based upon them to be grossly inferior to enactments based on more coherent logic. Those definitions use sloppy language with neologisms that are little more than promotional jargon for a transitory and ill-conceived aberrancy. Should such language be adopted in the text of laws and regulations, the inevitable and innumerable legal actions likely to result over the ensuing years will be condemned to propagating incoherency, never resolving the original failure on your part to properly parse the critical economic logic¹.

Q2. What are your views on the Committee's approach to classify cryptoassets through a set of classification conditions? Do you think these conditions and the resulting categories of cryptoassets (Group 1a, 1b and 2) are appropriate? Which existing cryptoassets would likely meet the Group 1 classification conditions?

It is appropriate and indeed critical to make a distinction between unbacked cryptocurrencies, which are inherently unsound and unsuited for any licensed financial institution to dabble with, vs. monetary liabilities fully backed by otherwise unencumbered assets of high quality and liquidity, enabling their redemption on demand. But the proposed classification scheme, the entire proposed taxonomy, is based on a flawed ontology and should be scrapped outright. "Cryptoassets", "Stablecoins", "Digital Assets" – all are mere buzzwords foisted on credulous regulators in "Emperor's New Clothes"² fashion that fail to capture any meaningful qualities to distinguish them from existing categories of monetary or financial instruments. Other than paper cash and coins, all financial assets, including Money, exist also or solely in digital form and have done for decades. That is to say that they are accounted/transferred and memorialized using computerized systems. Similarly, all computerized systems for maintaining accounting records and all messaging networks have relied on cryptographic techniques such as hash functions for nearly half a century. In the financial system then, in this sense: everything is already digital; everything is already crypto.

What is novel is the fact that you are now dealing with "Privately-issued moneys". This notion is congruent with Gorton and Zhang's [recent use](#)³ of the term "privately produced money" to refer to both so-called 'cryptocurrencies' and 'stablecoins'.

¹ This is due to limitations such as those in the US that cases/ruling may only address "actual controversies arising between adverse litigants". Whatever faulty semantics (or even ambiguous syntax) plague ill-conceived laws are virtually never systematically fixed by court rulings.

² Or in this case, where social media-adept cypherpunks have hijacked discourse, the "cool kids' new clothes" (their old ones having been the utterly failed Digicash of the mid-1990's).

³ [Taming Wildcat Stablecoins](#), G.B. Gorton, J. Zhang, Jul 2021

The definitional challenges that BIS, FSB and other authorities are experiencing arguably stem from an original error in the naming of ‘Central Bank Digital Currency’. This error is, in its consequences, much more serious than the “mild misnomer” that the Bank of England acknowledges it to be.

In a staff paper⁴, they state that: “In fact, the ECB has chosen to use the broader term “digital base money” (Mersch, 2017)⁵, which we find to be more accurate. For consistency we will stick with the more widely-used term ‘CBDC’, but acknowledge the potential mild misnomer.” Rather than being just a “mild misnomer”, however, it is one from which these other definitional dysfunctions follow.

Referring to our **Appendix: Definitions**, the term Digital Base Money (DBM) is greatly superior in that it:

- a) Builds on the already well-understood notion of Base Money;
- b) Avoids conflating attributes of such Money with attributes of its issuing Monetary Authority;
- c) Adds the attribute ‘Digital’ which, as regards Base Money that is generally accessible to the public, usefully distinguishes it from physical notes and coin.

From the use of this superior term, two corollaries naturally follow. First, is that ‘CBDCs’ are better described as publicly-issued DBMs – or even, simply, as new, publicly-issued Moneys (noting Q5 and our eGBP example). Of course, all reserve balances held at central banks have long been DBMs. The only real novelty from such new, publicly-issued DBMs, Moneys, or CBDCs is that of wider access to the payments finality and freedom from default risk that they afford. Second, correspondingly, is that the notion of Privately-issued Money deserves further regulatory attention and incorporation into your classification scheme. **Indeed, we propose, Privately-issued Money should be that scheme’s central, defining concept.**

As an aside, securities are securities and derivatives are derivatives and nothing about the tech used for persisting/executing their terms, conditions and ownership warrants ginning up new categories. In common parlance, Money of all kinds is a (current) asset. The term ‘digital asset’ is commonly used in creative industries. As applied to financial instruments, however, its contorted definition in your paper seems designed to avoid the notion of Privately-issued Money, subverting your ‘simplicity’ principle.

The categorically new thing is the fact that these new brands of Money neither (a) rely on legal tender designation⁶ to afford them currency, nor (b) come with an implied or explicit government guarantee to bail out the various Private-Sector Monetary Authorities responsible for Issuance of such Money and execution of transfers. Also new, given that banks and other financial institutions are subject to government licensing and regulation, is (c) that authorities need to promulgate laws and regulations governing what such regulated entities may and may not do with these various Privately-issued Moneys.

Your adoption of the term “stablecoin” is especially ridiculous, as detailed at length in our recent [comments provided to the Financial Stability Board](#)⁷ regarding so-called “Global Stablecoins”.

⁴ [Staff Working Paper No. 724: Broadening narrow money: monetary policy with a central bank digital currency](#)
J. Meaning, B. Dyson, J. Barker and E. Clayton; May 2018

⁵ [Digital Base Money: an assessment from the ECBs perspective](#). Speech at the Farewell ceremony for Pentti Hakkarainen, Deputy Governor of Suomen Pankki–Finlands Bank, Helsinki. 2017

⁶ Designating some brand of money as legal tender is inherently coercive, despite a lot of published nonsense confusing legal tender designation with legality. All legal tender laws were originally for the purpose of forcing creditors to accept a new, almost invariably inferior, Money, unit for unit, in payment of debts originally booked in some prior (better) Money.

⁷ [Comments to FSB from Dr. Douglas Jackson \(Global Standard\): Response to Consultation Document on ‘Global Stablecoin’ Challenges](#), Jul 2020

Moreover, while you claim agnosticism with respect to technical aspects, your repeated references to “nodes” and “validators” and so-called “distributed ledger technology” merely ape the marketing jargon of a community promoting schemes that entail an aberrant and technically inferior approach to well understood principles of highly distributed networked systems for messaging and other computation. In particular, the notion of requiring ‘Byzantine’ consensus mechanisms is an unnecessary affectation that achieves nothing economically useful except pecuniary benefit to the various vendors that sucker institutions into participation in their “[digital islands](#)”.

With respect to your proposed distinction between Group 1a and Group 1b, it is also misconceived. It is evident with your Group 1a reference to “tokenised” that you have fallen for the spurious notion that “tokens” – a term misused merely for branding/marketing purposes, as detailed at length in our FSB comments – are something other than the conventional accounting primitives that have always been used for keeping track of who owns what. There is also a problem with your notion of “stabilization mechanism” which I address in response to Q4.

Q3. What are your views on the classification conditions? Are there any elements of these conditions that should be added, clarified or removed in order to:

- **ensure full transferability, settlement finality, and/or redeemability;**
- **limit regulatory arbitrage, cliff effects and market fragmentation; and**
- **take account of new and emerging cryptoassets?**

Privately-issued Money should always be redeemable on demand, for whatever assets are specified in the issuer’s declaration of liability, in accordance with whatever conditions are specified. The system in/via which it is issued and circulates should also include strong (third party-verified), preferably real-time, transparency features detailing the composition of the assets held against such liabilities. Historic examples of this include the Federal Reserve with its [weekly publication of SOMA Holdings](#) and e-gold® which from 1996 onward published its “Examiner” utility, refreshed every ten minutes ([archived example](#))

In terms of ‘regulatory arbitrage’, each Private Sector Monetary Authority responsible for a Privately-issued Money should implement effective measures to prevent any access to system resources other than by those subject to the various jurisdictions in which the system is licensed or otherwise approved. This means that the Private-Sector Monetary Authority itself is in all cases subject to the host jurisdictions in which its goods/services are offered to participants/customers or, indirectly, to the customers of system participants.

As to ‘market fragmentation’, this will be reduced to the extent that Privately-Issued Moneys satisfying your Conditions can expeditiously obtain licensure in a large number of jurisdictions globally. Accordingly, under Condition #4, you might explicitly acknowledge that supervisors may designate or leverage (say) another national or regional authority, in effect subcontracting to them the exercise of certain of their own regulatory or supervisory authorities. In this way, a collaborative, global ‘**regulatory value web**’ might emerge. Within such a web, certain authorities might emerge as regional or even global ‘**domain hubs**’, each relative to their own areas of special expertise. International networks of authorities have already formed in recent years and may serve as useful fora for the collaborative development of such new regulatory and supervisory modalities. We note that some two thirds of the world’s population live in

jurisdictions that are members of either GFIN or AFI. Those two bodies are the [Global Financial Innovation Network](#)⁸ and the [Alliance for Financial Inclusion](#)⁹.

Q4. For the first classification condition, is there an alternative methodology to assess the effectiveness of the stabilisation mechanism of Group 1b cryptoassets? Would this proposed methodology be consistent with ensuring the effectiveness of the stabilisation mechanism while also being practical?

You propose assessing “the effectiveness of the stabilisation mechanism” by monitoring “the difference between the value of the cryptoasset and the underlying traditional asset(s)” and requiring “The difference in value must not exceed 10bp of the value of the underlying traditional asset...”. This is simply wrongheaded.

The only appropriate basis on which a Private-Sector Monetary Authority should proceed begins with promulgation of a clear contract detailing the Monetary Liability, which terms should be accepted by any prospective holder of the Money before permissions are granted enabling that holder to receive/own any of it. This should include an explicit definition of the native unit of account, covenants that specify the nature of assets to be held and their custodial arrangements, and specification of the conditions of redemption. Subsequently, the only suitable determinant is the question of whether the Monetary Authority, specifically in its Issuer function, breaches these contractual obligations, specifically with a failure to redeem any of the Money in a timely fashion in accordance with specified terms and conditions. The Issuer of Money should be able to liquidate the entire stock of Money issued and outstanding with no more than the most transient/trivial deviation in exchange rate relative to the market value of the underlying assets. ***Unlike a bank, a Money issuer should not operate on a ‘confidence scheme’ basis***¹⁰.

Basically, the idea is the same as that which distinguishes a viable bank from one that should be wound up – is the entity fulfilling its obligations, whether on demand or in accordance with some other specified term/maturity?

The problem with dictating market value is that the market determines market value – it is not the responsibility of the Monetary Authority. Obviously, if the specified redemption mechanism/terms is/are functioning, the Monetary Liabilities will closely track the market value of the underlying assets, as with any other currency board. Any deviation would afford a self-correcting arbitrage opportunity for whichever entities are credentialed to engage in the open market operations that meter the Money supply.

It is possible however that a premium may be attracted by a Privately-issued Money affording utility – such as transaction efficiencies – superior to that of the underlying asset(s). This phenomenon has been observed for hundreds of years. Adam Smith in his 1776 “Wealth of Nations” made reference to the “agio” (premium) that “bank money” on the books of the Bank of Amsterdam attracted vs the underlying specie. In more recent times, this was also observed with e-gold®, the Privately-issued Money that first established this industry over twenty years ago. The exchange rate for e-gold consistently exceeded the

⁸ [GFIN, the Global Financial Innovation Network](#), is the international network of financial regulators and related organisations committed to supporting financial innovation in the best interests of consumers.

⁹ [AFI, the Alliance for Financial Inclusion](#), is a policy leadership alliance owned and led by member central banks and financial regulatory institutions with the common objective of advancing financial inclusion at the country, regional and international levels.

¹⁰ Relatedly, we are astounded by Gorton and Zhang’s celebration of the traditional lack of end user due diligence with respect to the soundness of money and banks – and indeed, of government stratagems to discourage it. Contrary to their assertion “money also must satisfy the no-questions-asked (“NQA”) principle, which requires the money be accepted... without due diligence on its value”, it is high time Monetary Authorities and Financial Service Providers implement transparency utilities enabling informed determination of their soundness.

spot price of wholesale physical gold bullion, with the market “bid” for e-gold normally approximating the wholesale spot price of good delivery physical gold, and the e-gold “ask” about 50bp higher than the “ask” for physical gold. [Relatedly, it should also be noted that with central banks plunging willy-nilly into CBDC schemes, the same phenomenon may well occur, e.g. ‘eGBP’ circulating at a premium to GBP, especially the next time a major liquidity crisis threatens to collapse the global banking system].

If you are intent on monitoring the “difference” we propose you focus on occurrences where the medium circulates at a *discount* rather than heaping disapprobation on a medium that attracts a *premium*.

Q5. For the third classification condition, (i) would risk governance and risk control practices for Group 1 and Group 2 cryptoassets differ; and (ii) are there alternatives to the required risk governance and risk control practices that would ensure that material risks of the network are sufficiently mitigated and managed?

The appropriate alternative would be a prohibition of banks dabbling in unbacked cryptocurrencies. They only do this currently as enablers of the ongoing, worse-than-casino speculation in these media. This has caused innumerable entities that should know better to mistake the get-rich-quick frenzy of cryptocurrency ‘markets’ as if it were an indication of validity as a financial/monetary innovation.

This will end badly, very likely as soon as government central banks abate their unprecedented Money creation and, especially, when a sound medium (re-)arises that attracts actual legitimate usage¹¹.

It must be understood that unlike real Money, where some entity has a balance sheet that balances, with assets that would enable buying back and extinguishing all the Money issued and outstanding, ***with unbacked cryptocurrencies no such entity exists or could exist***. As a result, a panic and collapse in demand can only lead to a collapse in exchange rate, with no floor other than zero. You people surely understand this. You also surely recognize how spurious it is when this community uses grown-up words such as “market cap” – as if multiplying the current price of one unit of this dreck by the number of units outstanding results in a meaningful number. It obviously does not, due to the obscene actual illiquidity of these markets combined with the inability of anyone to post a bid in all circumstances.

In particular, the regulatory and law enforcement community has allowed the gross ongoing fraud of Tether/Bitfinex to go on despite it being glaringly evident for the past 3-4 years. With the absurd HODL mindset of this largely millennial community, none seem to care that relatively few ‘sales’ of crypto are in exchange for actual Money. People instead park their paper gains in Tether or the slightly more honest Tether wannabees that have cropped up recently seeking market share in this cynical exploitation of naïve/greedy nincompoops. But any significant contagion of people trying to salvage what is left of their paper gains in an outright panic would find as few exits as when someone yelled fire in the [1913 Italian Hotel disaster in Calumet, Michigan](#). This has already been evident when the de facto suspension of functioning markets in recent collapses has weirdly stayed the collapse. But when the big one comes, people will realize that suspension of markets means they may fail to salvage anything. The revealed reality of illiquid markets will not calm but terrify these people, as they watch their dreams of fabulous unearned wealth turn to ashes.

¹¹ The nail in the coffin of “digital cash” (notably Digicash - the cypherpunk fantasy of the 1990s - also promoted as if the future of money) was the emergence of e-gold. For as long as e-gold was operational, despite a continuous stream of crypto schemes, none attracted any usage or traction – even amongst cypherpunks (who largely but begrudgingly used e-gold). It was only after e-gold withdrew from the market in 2008 (as the result of a case that entailed [provable](#) prosecutorial misconduct) that Craig Wright was able, actually using the misrepresented demise of e-gold as a foundational myth, to attract interest in his Rube-Goldberg, unbacked digital cash, Bitcoin.

Q6. For the fourth classification condition, (i) to what extent would the regulation and supervision of entities that execute redemptions, transfers, or settlement finality of the cryptoasset reduce risk in cryptoasset exposures held by banks; (ii) which entities should/ should not be in scope of regulation or supervision? For instance, are there entities involved in the transfer and settlement systems of cryptoassets (such as nodes, operators and/or validators) that should be excluded from the condition of required regulation and supervision?

In some institutional arrangements (such as with our nascent system), the ‘Issuer’ Role might be tightly circumscribed and separate from the ‘System Provider’ Role, such that the Issuer has no knowledge of customers and transactions. In such a case, the System Provider should be the (most) regulated entity with global responsibility for all elements in each jurisdiction in which those subject to that jurisdiction are granted access to system resources.

Q7. Do you consider the responsibilities of banks and supervisors to be clear and appropriate? Are there any other responsibilities for banks or supervisors that the Committee should consider?

Yes, and we do also propose a new responsibility for each: banks and supervisors.

FIRSTLY, FOR BANKS AND OTHER FINANCIAL SERVICE PROVIDERS (FSPs) that hold value on account. This would arise for FSPs that undertake to offer accounts denominated and payable in certain Privately-issued Moneys, designated as such by a supervisory determination that they meet your Conditions. ***Their new responsibility, we propose, should be to operate on a “narrow bank” basis with respect to such accounts¹².*** This would mean maintaining a 100% reserve of the DBM form of the Privately-issued Money, separate from any additional buffer held for usage as settlement or trading balances.

This could plausibly be ‘enforced’ by market-based/competitive means. This might entail real-time publication of such liabilities vs. the underlying reserves, with the latter published via transparency utilities deployed by the System Provider¹³. Or the System Provider could *require* 100% reserves and enforce such requirements as with other SROs (Self-Regulatory Organizations). But, in conjunction with the considerations addressed in relation to Q14 below, it may also make sense for specification under the auspices of an official rubric. By any means, were accounts so-denominated/payable offered on a “narrow bank” basis, this would dovetail nicely with the absence of Deposit insurance for such accounts since they would be in fact safer than conventional demand Deposits. But this latter consideration in turn warrants discussion of liquidation preferences.

Were banks to offer accounts denominated and payable in Privately-issued Moneys, and were they encouraged/required by some means to maintain a 100% reserve of the DBM form of such Moneys against such liabilities, it would be grossly inequitable in the event of bank failure for such reserves to be attached by the receiver to satisfy claims of other, unsecured, creditors. For this reason, we propose BIS entertain the possibility of providing for such accounts to be treated as off-balance sheet liabilities, in a dynamic fashion as discussed in relation to Q14 below. This would be similar to how the BIS itself holds gold in various off-balance sheet (earmark) arrangements for its institutional customers.

¹² This is especially important if the Money might in some scenarios dramatically appreciate in value relative to publicly-issued Moneys, leading to risk of non-performance of FSPs with un(der)backed exposures/liabilities.

¹³ Again, e-gold was precedent for such arrangements, deploying its “[Publicly viewable balance](#)” utility in June 1999 for the purpose of enabling participant banks to prove they were holding adequate reserves of e-gold against whatever AUG-denominated liabilities they might book. [Scroll down to June 1999 “New feature designed for e-gold based financial institutions”].

SECONDLY, FOR SUPERVISORS, relative to your Conditions and their implementation thereof. *Their new responsibility, we propose, in cooperation with others internationally (see Q3 re market fragmentation), should be to define enhancements to the regulatory/supervisory framework aligned with the recommendations of the UN-convened High-Level Panel on Financial Accountability, Transparency and Integrity (FACTI Panel)*¹⁴. The capabilities of Privately-issued Moneys can be reasonably foreseen as being helpful – arguably even necessary – to achievement of the higher standards called for in the Panel’s Final Report. *“The global financial system must be reformed, redesigned and revitalised so that it conforms to four values – accountability, legitimacy, transparency, and fairness”, they wrote. This “requires nothing less than a transformation of the global financial system”.*

This new responsibility arises in relation to their supervision of both currently regulated banks/FSPs and of entities providing those Privately-issued Moneys which they determine to meet your Conditions. The Regulatory Sandbox or ‘test and learn’ frameworks offered in many jurisdictions may be helpful. Such frameworks may provide an ideal environment for (a) collaborative development of such enhancements, dependent as they would be on certain innovative capabilities of such Privately-issued Moneys. This could occur concurrently with (b) supervisory determinations as to whether providers do, in fact, meet the Conditions. Concurrently also with (c) supervisory engagement with those banks/FSPs undertaking to offer accounts denominated in such Privately-issued Moneys. Such determinations by supervisors would need to be made at two stages. First, on a provisional basis, upon acceptance of an application to the Sandbox that requested such a determination. And then, definitively, at such time as such a Privately-issued Money graduates from the Sandbox.

Q8. Are there ways in which the increased operational risk relating to cryptoassets (relative to traditional assets) can be measured? How should a pillar 1 add-on be designed to capture additional operational risks arising from exposures to cryptoassets?

No comment.

Q9. Are there further aspects of the credit risk and market risk requirements that could benefit from additional guidance on how they should apply to Group 1a cryptoassets?

See Q10.

Q10. Do you have any views on the Committee’s current thinking on the capital requirements for Group 1b cryptoassets?

There is no meaningful difference between Group 1a and Group 1b. It should just be group 1 – Privately-issued Money fully backed by an appropriate asset portfolio. Some such portfolios would result in a balance sheet for the (DBM form of the) Privately-issued Money markedly stronger than any commercial or government central bank.

Q11. What further aspects of the credit risk and market risk requirements could benefit from additional guidance on how they should apply to Group 1b cryptoassets?

See Q10 and Q14.

¹⁴ [Launch of the Final Report of the High-Level Panel on International Financial Accountability, Transparency and Integrity \(FACTI Panel\) for Achieving the 2030 Agenda](#), Feb 2021

Q12. Do you think the proposed capital treatment of Group 2 cryptoassets, including the application of a 1250% risk weight instead of deducting the asset from capital (for the reasons explained above), appropriately reflects the unique risks inherent in these assets?

Banks simply shouldn't dabble in unbacked cryptocurrencies just as children shouldn't be provided lead-based snacks or given elemental mercury to play with.

Q13. Are there alternative approaches that the Committee should consider that are simple, conservative and easy to implement? For exposures in the trading book, would it be appropriate to permit recognition of hedging via the application of a modified version of the standardised approach to market risk?

Yes, the standardized approach to market risk is generally fine.

Q14. Do you have any views on the Committee's current thinking regarding the leverage ratio, large exposures framework and liquidity ratio requirements? Are there further aspects of these requirements that could benefit from additional guidance?

The Consultative document makes passing reference to the issue of whether certain Privately-issued Moneys might (eventually) be suitable to be designated as HQLA for LCR purposes. This warrants closer examination.

As BIS and banks are fully aware, balances held at central banks, as well as nostro balances in correspondent banks and net-unencumbered settlement balances advanced to clearing houses are not HQLA for purposes of LCR calculation. They instead show up in the more powerful denominator category as 100% inflows¹⁵.

We suggest that holdings of certain Privately-issued Moneys will prove safer from a prudential perspective than nostro balances held with many or all G-SIB correspondents, especially as such latter balances are often large and far in excess of Deposit insurance limits. For example, a Privately-issued Money backed by an asset portfolio consisting almost entirely of treasury bills of <=90 day maturity/duration would be dramatically more sound. For that matter, consider the grossly overleveraged balance sheets of western central banks, which are also chock full of assets with egregiously lengthy maturity/duration resulting in maturity mismatches across the balance sheet that would be impermissible for any private sector bank.

Moreover, a Privately-issued Money 100%-backed by the sort of assets that government central banks and [treasuries themselves designate as reserves](#), (gold, official SDRs, balances at other central banks) could, with appropriate other institutional arrangements (custodial, operational) be made for all practical purposes immune to the risk of issuer default¹⁶.

We therefore propose that balances of such Privately-issued Moneys should also be treated as 100% inflows, with adjustment if required in the case of denominational mismatch across the balance sheet.

¹⁵ For example, with Eurosystem LCR calculation/reporting via [Template 74 of Annex XXIV](#) such balances would be [tabulated via row 160](#) "monies due from other financial customers".

¹⁶ e-gold, despite a five-year continuous shock-and-awe campaign by a rogue law enforcement agency overtly seeking to loot the gold reserves backing the e-gold balances of innocent customers, eventually made all claimants whole. In fact, on a USD basis (thanks to a fortuitous decline in the value of USD relative to gold during that interval), e-gold claimants received from 200-500 'cents on the dollar'. This was due to robust institutional/custodial arrangements.

But in the case of a bank offering accounts denominated and payable in such a Privately-issued Money, and 100%-backed (in narrow bank fashion) with the DBM form of such Money, *those reserve holdings would entail no such mismatch*. Similarly, such an arrangement would be an absolute assurance of a 100% NSF Ratio for the corresponding portion of such assets.

For purposes of outflow calculation, we would propose that in accordance with the guidelines of LCR40.13 “potentially less stable retail deposits¹⁷ [and] in their jurisdictions... minimum run-off rate of 10%”, Deposits denominated in sound Privately-issued Moneys and backed by a 100% reserve be reckoned at the 10% run-off rate.

Q15. Do you have any views on the responsibilities of banks? Are there any other responsibilities or aspects that should be covered by banks for the purposes of the supervisory review?

No comment.

Q16. Do you have any views on the responsibilities of supervisors? Are there any other responses that could be considered by supervisors when conducting supervisory review?

See Q7.

Q17. Do you have any views on the adjustments to minimum Pillar 1 capital requirements to capture additional credit and/or market risk? Are there any other potential modifications that supervisors may need to consider?

For FSP accounts denominated/payable in Privately-issued Moneys we propose they be treated as foreign currency Deposits, initially as per CAP20.61:

“A bank of which business in foreign currency is insignificant and which does not take foreign exchange positions for its own account may, at the discretion of its national authority, be exempted from capital requirements on these positions provided that:

- (1) its foreign currency business, defined as the greater of the sum of its gross long positions and the sum of its gross short positions in all foreign currencies, does not exceed 100% of eligible capital as defined in CAP10.1; and
- (2) its overall net open position as defined MAR20.59 above does not exceed 2% of its eligible capital as defined in CAP10.1.”

Q18. Do you have any views on the potential design of disclosure requirements?

Disclosure should certainly be comprehensive, unlike banks and demand Deposits regarding which some have aptly quipped that a bank may be defined as ‘the only sort of institution legally permitted to borrow from the public without prospectus’. In the case of a Private Sector Monetary Authority, it should be the duty of the entity with global administrative responsibility to promulgate not only disclosures regarding the Money, accounts, conditions of direct system participation but to also craft standard disclosures with respect to services provided by participant FSPs to their customers. We would be happy to provide relevant authorities with current drafts of our agreements.

¹⁷ It is our understanding that foreign currency Deposits are by default treated as “potentially less stable”.

Appendix (from comments to FSB): Definitions

The following list of proposed definitions does not include a new label for securities or other financial assets other than Money since they already have serviceable definitions for which it is not necessary to append modifiers relating to whether they are in digital or “crypto” form.

Base Money means Money, for which a Monetary Authority is directly liable, serving as the medium in which like-denominated Broad Money is payable.

Broad Money means Monetary Liabilities of a Person other than a Monetary Authority which are payable on demand or at maturity in like-denominated Base Money.

A **Deposit** (noun) means a liability of a Person (e.g. a bank) payable on demand or at maturity, offered without legal requirement of prospectus and used as a means of funding an asset portfolio which may include remunerative assets, gains or losses from which inure to the benefit or detriment of the Person for whom/which the deposit constitutes a liability. A Deposit also means the corresponding asset of the depositor.

Digital Base Money (or ‘DBM’) means Base Money instantiated in digital form.

Issuance (of Money) means the act or process of creating Base Money.

Monetary Authority means a Person responsible for the Issuance of the Base Money of a particular brand of Money and provision of a mechanism for settling transfers of that Base Money.

Monetary Liability is a subset of the accounting primitive “liability” that specifically refers to Money that has been Issued by the Person for whom/which it constitutes a liability and remains outstanding.

Money is a branded liability of a Person, or physical tokens the value of which derive from the materials of which they are composed, created to serve as a medium of exchange, quantities of which are denominated and expressed in particular units designated as specific to that brand of Money. For its owner or beneficial owner, Money is a current asset.

Privately-issued Money means Money the Base Money of which is Issued under the auspices of a Private Sector-Monetary Authority.

Private Sector Monetary Authority means a Monetary Authority for which a Person or Persons other than a government or public body is responsible.