

Bank of International Settlements/ Basel Committee
Centralbahnplatz 2
4051 Basel, Switzerland

PER WEBSITE www.bis.org

10 September 2021

Response to the Consultative Document “Prudential treatment of cryptoasset exposures of June 2021”

Dear Sir, Madam,

The FIA European Principal Traders Association (FIA EPTA) welcomes the opportunity to comment on the Basel Committee Consultative Document “Prudential treatment of cryptoasset exposures”, dated June 2021.

FIA EPTA represents 30 independent European Principal Trading Firms (PTFs) which deal on own account, using their own money for their own risk, to provide liquidity and immediate risk transfer in exchange-traded and centrally-cleared markets for a wide range of financial instruments, including shares, options, futures, bonds and ETFs. Our members are important sources of liquidity for end-investors and markets across the European Union.

The discussions within the Basel Committee and this Consultative Document are very timely. We have reached a pivotal moment for the adoption of innovative technologies that will improve capital markets by verifiable and transparent information, higher efficiency of clearing and settlement and more liquidity. New digital assets are emerging that promise greater stability, wider acceptance and increase possible uses.

FIA EPTA members believe that financial markets should be fair, transparent and resilient and welcome coordinated initiatives to regulate trading platforms, issuers, infrastructure providers and market participants to further mature the digital asset class and markets, such as the European Union’s legislative proposal on Markets in Crypto-Assets (MICA), which deserves global following. We suggest to incorporate such a long-term view on the future functioning and usability of crypto assets in our financial system in the final proposal by the Basel Committee.

Furthermore, the Consultative Document consequently refers to ‘banks’ undertaking certain activities related to cryptoassets. It remains unclear if the proposed approach should be also be applied to investment firms under the European IFR/D regime. If that would be the fundamental decision of the Basel Committee, FIA EPTA members believe this approach does not reflect the actual risks of cryptoassets, the functioning and contributions to pricing by market making activities.

Notwithstanding the above, the following issues should be addressed in any renewed proposal by the Basel Committee:

- Contrary to the current proposal, a **separate treatment of trading book and banking book** for capital requirements related to cryptoassets is consistent with the current Basel Framework and would ensure one comprehensive framework based upon proportionality in relation to the risks of cryptoassets.
- Consequently, **capitalizing net positions in crypto assets is appropriate**, as market makers providing liquidity trade the price differences between the different types of crypto ETPs on the different types of exchanges while keeping the net exposures in the crypto assets flat.
- A more granular methodology with regard to crypto assets classified in “Group 2” would better fit crypto assets market developments. **Re-classifying the “Group 2” is appropriate**. These assets are very different and subject to different risks (volatility, liquidity thresholds, maturity level, and operational risk control mechanisms).
- The proposed **risk weight** of 1250% would have to **be re-assessed and aligned with current Basel Framework** risk weights for other, equivalent, assets, as it is not proportionate to the underlying risk and does not reflect the overall impact of crypto assets on the global financial markets and of crypto assets that are matured, established, traded on liquid markets and have internal governance controls.
- In terms of market and credit risk, the risk weight for cryptoassets as pointed to above should be calculated equally as the asset class ‘equity’ within the Basel framework. For operational risk, an add on should be considered which would not exceed the risk weight of existing risk weight calculations for other asset classes.

FIA EPTA remains at the Basel Committee’s disposal to discuss any elements of this letter in more detail.

About FIA EPTA:

FIA EPTA represents 30 independent European Principal Trading Firms (PTFs) which deal on own account, using their own money for their own risk, to provide liquidity and immediate risk transfer in exchange-traded and centrally-cleared markets for a wide range of financial instruments, including shares, options, futures, bonds and ETFs. FIA EPTA’s members are based in the Czech Republic, Germany, Ireland, The Netherlands and the UK.

Our members are independent market makers and providers of liquidity and risk transfer on trading venues and end-investors across Europe. Market making and liquidity provision (also referred to as principal trading or dealing on own account) is a distinct activity that is undertaken by non-systemic investment firms rather than banks, in a highly dispersed and varied ecosystem of independent Principal Trading Firms. These firms operate in an innovative and competitive fashion leading to a vibrant, dynamic and diverse ecosystem which massively reduces interconnectedness and increases substitutability. This fundamentally reduces systemic risk whilst improving market quality and lowering costs for retail and institutional investors alike.