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Euroclear SA/NV

Response to CPMI-IOSCO's targeted consultation on

"Application of the Principles for Financial Market Infrastructures to stablecoin arrangements"

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Introducion

Euroclear supports the work done by CPMI and IOSCO in assessing the applicability of the Principles for Financial Market Infrastructures (PFMIs) to new types of financial market infrastructures arising as the result of new technologies. This work will be critical not only to safeguard financial stability but also to maintain a competitive environment by ensuring a level playing field and limiting the possibility for regulatory arbitrage.

Stablecoin Arrangements (SAs) may be of importance to CSDs due to their possibility to be used as 'settlement assets' but also due to their possible feature to be used as 'store of value'. For these reasons, we provide below some targeted comments on how we believe the PFMIs should apply to SAs. These views complement the ones provided by the European Central Securities Depository Association (ECSDA). Considering the still maturing nature of these new instruments and arrangements, our views may evolve further.

Questions for consultation

Applicability of the PFMI to SAs

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

Stablecoin arrangements will take different forms, include various functions and be organized in many ways, which may lead to highly complex structures. This can create problems in terms of unclear supervision due to SAs being spread in several jurisdictions or hidden conflicts of interests. For that reason, it may be appropriate for CPMI-IOSCO to be more explicit in describing the arrangements features that would not be compatible with a systemic SA.

Considerations for determining the systemic importance of an SA

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

The guidance currently foresees that a SA is considered as systemically important in the same way as a payment system, meaning that it has to be designated as such based on a list of criteria. The guidance further clarifies that the criteria need to be considered holistically and that an individual criterion would not necessarily be sufficient to determine systemic importance.

For financial stability reasons as well as from a level playing field perspective, we believe there is merit in considering the below changes in the guidance:

- When a SA aims to or is primarily issuing stablecoins used as 'store of value', the SA should be automatically presumed to be systemically important and apply the PFMIs, in the same way as a securities settlement system. Such type of SA would indeed be closer to a securities settlement system than a payment system. Based on the functional approach described on page 9 of the consultation report ("same activity, same risks, same rules"), the same treatment in terms of systemic importance should apply.
- When a stablecoin can be used as a settlement asset within a systemic FMI, it may be appropriate to automatically consider the SA as systemically important, independently from all other criteria.

Governance

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?

We support CPMI and IOSCO's decision to underline the need for SAs to be composed of one or more legal entities. The liabilities and responsibilities deriving from the operation of an FMI cannot be borne by a technology alone. A priori, only one or several legal entities have the means to do that. By making this guidance, CPMI and IOSCO are taking a technologically neutral approach and not lowering the standards for the mere sake of fostering the use of a new technology.

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?**

A new challenge that arise from decentralized SAs is when several entities are considered responsible and accountable for the activity of the FMI. If the allocation of these between the different parties is not clearly defined and enforceable, the risk exists that nobody will eventually be bearing it.

Interdependencies

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?**

No comment

Settlement finality

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?**

The guidance outlines that the SAs need to clearly define the moment of finality but also allows the possibility for FMIs to deviate from such 'clear definition' as long as (i) they make this risk transparent and (ii) have measures in place to address the potential risks linked to a misalignment between technical settlement and legal finality.

Although we understand the rationale behind such guidance is to address the risk of forks that could arise from some types of DLT models that can only offer 'probabilistic' settlement, it may be appropriate to for the PFMIs to prevent systemically important SAs from using DLT models that entail such risks.

Depending the uncertainties forks can represent in terms of legal certainty as well as the additional risks it can create for the FMI, systemically important SAs may need to be deemed compliant with the PFMIs only when using DLT models that do not leave any ambiguity in regards to the settlement finality and have therefore no risk of forks. By putting forward this guidance, CPMI and IOSCO would take a technology neutral approach similar to the one taken for the Principle 2 (see question 3).

Money settlements

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?**

The guidance provided for money settlement are critical to ensure SAs do not create financial stability and systemic risks. Their transposition into domestic and regional legislation will but also ensure a fair and competitive landscape by harmonizing the regulations governing the functions offered by SAs. This will be crucial in order to limit level playing field concerns as well as regulatory arbitrage.

This will however only hold true if these principles are followed and transposed. In that regard, we fear some jurisdiction may be tempted to take a direction that is not in line with the approach taken by CPMI and IOSCO on the applicability of the PFMIs to institutions and arrangement using DLT to perform FMI functions.. Such appears to be the case in the EU (e.g. MiCA and DLT Pilot Regime). We therefore urge CPMI-IOSCO to not only ensure these upcoming guidance for SAs are endorsed globally but also to issue global guidance on how FMIs using DLT should comply with the PFMIs.

Finally, the guidance foresees the considerations that an SA should take into account when choosing a stablecoin as a settlement asset. CPMI-IOSCO should also determine the conditions necessary for a stablecoin to be used by other FMIs such as CSDs. In that regard, it will be critical for CPMI-IOSCO to assess how the PFMIs applicable to existing FMIs can apply when DLT is used by such FMIs and how crypto-instruments could be used as part of their operations.

General

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 comment

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

No comment

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