

EURONEXT RESPONSE TO CPMI – IOSCO CONSULTATION ON “APPLICATION OF THE PRINCIPLES FOR FINANCIAL MARKET INFRASTRUCTURES TO STABLECOIN ARRANGEMENTS”

Introductory Remarks

As pan-European financial market infrastructures operator, the Euronext welcomes the CPMI-IOSCO consultative report concerning further guidance on the application of the Principles for financial market infrastructures (PFMI) to systemically important stablecoin arrangements (SAs).

Whereas it is clear in the paper that this Guidance is intended to apply only to stablecoin arrangements and not to clearing and settlement infrastructures, it would be worth to highlight that some of the considerations laid down in this report with reference to the governance and use of DLT could trigger further reflections by settlement and clearing FMIs for future implementation of DLT technology, notably for the performance of core services. In this perspective we welcome the opportunity to share some consideration from a point of view of a financial market infrastructure although we believe that application of PFMI in the context of DLTs would need to be subject to further assessment, including targeted consultations.

In this perspective, we would like to highlight the following considerations on the consultative report:

- ❖ We agree with the “*functional*” approach elected by CPMI-IOSCO. Indeed, Euronext believes it is quintessential to maintain a regulatory level-playing-field, in order to prevent regulatory fragmentation between similar activities and to foster adherence towards internationally agreed standards and principles;
- ❖ Euronext also believes that CPMI – IOSCO approach providing further guidance is appropriate in order to accommodate the functional considerations highlighted above with the principle of technology neutrality and that should be taken into account to support implementation on new technology by FMIs;
- ❖ With reference to Guidance to Principle 8 on Finality, we support the approach that clear and final settlement should be ensured regardless of the underlying technology and the operational method used. Any deviation from this principle should be avoided and if any made transparent and supported by appropriate safeguards risk mitigation measure. These considerations should be taken into account by the FMI operator when assessing the appropriateness of the system’s architecture;
- ❖ With respect to the Guidance to Principle 2 on Governance, considering the potential rise of new governance structures that might be enabled by automated

trading protocols and decentralisation, we believe there is a need to ensure that activities by new actors are conducted respecting equivalent safeguards and standards;

- ❖ With reference to definition of Stablecoin Arrangements, we would welcome further clarity to support FMIs in the assessment of and interactions with stablecoin arrangements operators. Nonetheless taking into account the pace of technological evolution, there might be a need to review such a definition and concepts used in each Guidance periodically to keep it consistent with the development in this area.

Detailed responses with respect to the Guidance

Governance

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

We share the view that PFMI are technology neutral, meaning that the PFMI remain valid also in case of innovative decentralised architectures.

Clearly, even in a decentralised architecture the necessity remains to ensure that operators performing certain critical functions adopt and maintain appropriate arrangements, including adequate governance arrangements.

On this behalf we note that, when considering further guidance related to automated functions, the mechanisms and principles which have been elaborated for allocating the responsibility with respect to already existing automated functions (e.g. robot currently used by traditional FMIs) should be considered and elaborated further, in the context of the future debate on clearing and settlement functions.

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?

Even though it is clear in the paper that this Guidance does not apply to traditional FMIs, it would be worth to highlight that some of the considerations laid down in this report could trigger further reflections by settlement and clearing FMIs for future implementation DLT technology.

In this regard, even though the use of probabilistic settlement is a distinctive feature of certain DLTs technologies used by Stablecoin Arrangements, it cannot be

excluded that this aspect would be become relevant also for other FMIs. For instance, in Europe a proposal for DLT Market Infrastructures is soon to be finalised. Therefore, we consider that a further reflection on Guidance of Settlement Finality should be made also from an FMI perspective. In this context we agree with the issue highlighted in the report with reference to the probabilistic settlement where a misalignment between technical and legal finality may occur. Overall, we support the approach whereby a clear and final settlement should be ensured regardless the underlying technology and the operational method used. Any deviation from this principle should be made transparent and supported by appropriate risk mitigation measure.

In addition, with reference to the second bullet point of the Guidance on Principle 8 which requires to have in place measures *"to address the potential losses that could be created in case of reversal stemming from the misalignment between technical settlement and legal finality"* we would like to share some consideration to be further explored in the perspective of the adaptation of this guidance in the context of clearing and settlement services.

Firstly, it should be noted that the possibility of a "forking event" might not be inherent to every decentralised model and might as well be excluded for certain private architectures. Furthermore, occurrences of a "forking event" may vary depending on the concrete functioning of the consensus mechanism implemented at the level of the underlying technology. Similarly, always depending on the consensus mechanism, misalignments may be attributable to different causes and/or to the responsibility of different actors of the process. In some other instances there might be a misalignment, however with no ensuing losses for the participants and the system operator (e.g. in cases where risk controls promptly address the issue and prevent it from generating undue losses). All these factual considerations should be taken into account by the operator when assessing the appropriateness of the system's architecture.

Against this background, we also believe that the focus should firstly rather be on the need to set up an appropriate risk control mechanism, aimed at pre-emptively addressing the potential emergence of a settlement finality misalignment, which should be structured in light of the specificities of the given technology and related consensus mechanism.

Therefore, we question whether it would be more appropriate, rather to identify only measures to address potential losses, to instead **refer to the need to have in place measures and risk control mechanisms** to prevent and address the consequences stemming from a potential misalignment between technical and legal finality.

We welcome the opportunity to discuss further these aspects in the context of future CPMI – IOSCO initiatives.