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Basel Committee on Banking Supervision
Bank for International Settlements
4002 Basel
Switzerland

Second consultation on the prudential treatment of cryptoasset exposures

Ladies and gentlemen,

METI Advisory AG welcomes the opportunity given by the Basel Committee on Banking Supervision (henceforth 'BCBS') to comment on its second consultation on the prudential treatment of ctyptoasset exposures (henceforth 'consultation document'). METI Advisory AG is an advisory boutique focused on providing effective solutions to crypto and blockchain businesses, their design and development. It welcomes the effort of the BCBS to regulate banks' cryptoasset exposures because it believes that good and sensible regulation is key to foster broad adoption of DLT technology, and harvest its benefits in a risk-controlled way. It has already offered comments on the first consultation.

The thinking of the BCBS on cryptoasset exposures has evolved over time, from the early identification of a high-risk category of unbacked cryptoassets, to be charged with the highest possible capital charge (2019, discussion paper), to the comprehensive framework in the consultation document (2022, second consultative document) – in which the harshest possible capital charge is applied to exposures to cryptoassets *other* than tokenised traditional assets and non-algorithmic stablecoins.

In the consultation document, the BCBS has also introduced qualifying conditions for each category of cryptoassets; dedicated methodologies for calculating regulatory capital charges for market and credit risks for each category; an approach to calculate the operational risk charge; an infrastructure add-on for tokenised traditional assets and non-algorithmic stablecoins; an exposure limit for cryptoassets other than tokenised traditional assets and non-algorithmic stablecoins; the possibility for supervisors to implement specific add-ons; and the limited recognition of tokenised traditional assets as high-quality liquid assets.

The issuance of the consultation document has gone hand-in-hand with the intention to hard code the proposals in the Basel Framework, in the form of standard text. This evidences that, with the consultation document, the BCBS is convinced to have approached the finishing line of its effort started in 2019 to include cryptoasset exposures in the global prudential regulatory framework applicable to banks (henceforth 'Basel Framework').

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We are **not** convinced that the proposals presented in the consultation document are sufficiently mature to be included in the Basel Framework in the form of standard regulatory text.

Hence, instead of offering detailed comments to the specifics of the proposed treatments, we offer three fundamental observations for consideration that we believe should be considered and addressed before proposing final standard text for inclusion in the Basel Framework.

Cryptoassets other than tokenised traditional assets and non-algorithmic stablecoins

The attribution of the harshest possible capital charge to cryptoassets other than tokenised traditional assets and non-algorithmic stablecoins commands further work, as it currently mixes different cryptoassets such as, unbacked layer 1/layer 2 cryptoassets and algorithmic stablecoins. This is the most material observation we are making. The BCBS gives the strong impression of trying unilaterally to cryptoassets into traditional assets to specify a capital charge. That is why detailed rules could be proposed for exposures to tokenised traditional assets and stablecoins other than algorithmic. The impression is that currently, the BCBS attributes the highest risk to 'unbacked' cryptoassets such as bitcoin and ether because it cannot identify an underlying traditional asset from which to derive a risk profile (let alone a (central) counterparty or intermediary). It does not seem to appreciate that the value of such cryptoassets comes from the value of the protocol they carry – evidenced by its usage or anticipated and potential usage. Consequently, the BCBS should distinguish between unbacked cryptoassets and algorithmic stablecoins, because they are different in nature. We believe that the proposals should be hard coded in standard text only when cryptoassets other than tokenised traditional assets and stablecoins are appreciated for what they are - a net new addition to the financial assets known to date.

Complexity, sophistication & simple back stops

As we know, the complexity and sophistication of the Basel Framework has increased over the years and decades (since mid-nineties). The BCBS has grown the sophistication and complexity of the Framework in search for greater risk measurement granularity up until the 2008 financial crisis. After the crisis, the Framework has been complemented by blunt back stops to the sophisticated exposure measurement structure in terms of exposure limits, leverage ratio and add-ons. The consultation document builds on the same approach, and features sophisticated and complex, granular, exposure measurements for certain cryptoassets, along simple overarching back stops. We believe that the BCBS should treasure the experience made in the past and keep the exposure measurements relatively simple, instead of complex for then applying blunt hard caps.

Infrastructural-, technological-driven, conservatism

The infrastructural and operational conservatism introduced in the proposed rules suggests that the BCBS has not yet achieved the required level of comfort with DLT. There may be merits to it and getting more comfortable with DLT is a process of temporary nature, which also depends on the pace of adoption of DLT in the economy. These likely temporary conservative elements should not be hard coded in the final rules, because they are likely to be relaxed after enhanced confidence is gained over the technology. The proposed rules should be hard coded in standard text only after the BCBS has gained sufficient comfort with the DLT technology.

METI Advisory would like to thank the BCBS for the opportunity given to the industry to comment on the proposed rules and stands ready to contribute as requested.

Yours sincerely

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