S&P Global Ratings' Response to the Basel Committee on Banking Supervision's consultation on Cryptoassets Standard Amendments

March 27, 2024

Analytical contacts: Andrew O'Neill (andrew.oneill@spglobal.com); Mohamed Damak (Mohamed.damak@spglobal.com)

Global Regulatory Affairs contact: Gerben de Noord (Gerben.denoord@spglobal.com)

S&P Global Ratings appreciates the opportunity to comment on the Consultative Document of the Basel Committee on Banking Supervision ("BCBS") on Cryptoasset Standard Amendments, as published on 14 December 2023. Our response addresses the proposed capital requirements for stablecoin exposures. According to the proposal, inclusion in the "Group 1b" category results in stablecoin exposures being largely subject to the requirements of the existing capital framework. If they do not meet all conditions they are included in the "Group 2" category and subject to a new highly conservative capital treatment, similar to bitcoin, for example.

We generally agree with the proposed considerations used to categorize a stablecoin in Group 1b. Indeed, the focus on the credit quality and the maturity of the stablecoin's underlying assets, and on the bankruptcy remoteness of the structures holding these assets, is consistent with our view on the underlying risks of stablecoins. Our analytical approach to our stablecoin stability assessments (as well as our reports on individual stablecoins) can be found here: https://www.spglobal.com/ratings/en/research-insights/sector-intelligence/interactives/stablecoin-stability-assessments

However, we note that the introduction section excludes from Group 1b stablecoins that use permissionless blockchains (blockchains where anyone can participate in the network and validate transactions without the approval of a central authority). We believe that this blanket exclusion may lead to disproportionately high capital requirements on these stablecoins compared with stablecoins that use permissioned blockchains.

We understand that the use of permissionless blockchains can introduce risks to be mitigated. The consultation document references risks such as: (i) the networks' reliance on third parties to carry out basic operations; (ii) banks' limited ability to conduct due diligence and oversight over these third parties or prevent potential disruptions to the network; (iii) political, policy, and legal risks; (iv) anti-money laundering and countering terrorism financing ("AML/CFT") risks; and (v) risks around settlement finality, privacy, and liquidity. In our view, blockchains are an infrastructure layer, and these risks may be mitigated at different layers: (a) at the level of the stablecoin itself, whether embedded programmatically or through the issuer of that asset; (b) through the platform or intermediary through which the bank engages with the asset; as well as (c) at the level of the blockchain itself. Indeed, some permissionless blockchains have a strong track record of operational resilience and embedded mechanisms of defense against risks such as outages, cyber-attacks or excessive validator concentration risk. For reference, in Oct. 2023 we published a research article on risk dependencies in public permissionless blockchains: https://www.spglobal.com/en/research-insights/featured/special-editorial/what-can-you-trust-in-a-trustless-system

The exclusion from Group 1b seems also inconsistent with the approach to the infrastructure risk add-on in paragraphs 60.52 and 60.53, which gives competent authorities the power to apply an add-on, but which is initially set at zero until a weakness in the infrastructure is observed. In our view, the risk related to the use of permissionless blockchains could be perceived as an integral part of the infrastructure risk and we note the proposal to address this risk through an add-on. However, we note that this may result in significant regulatory discretion and potentially some inconsistent capital requirements. Therefore, the proposal could benefit from additional guidance on how this add-on could be set by the competent authorities.

The treatment of stablecoins created in a permissionless manner, through a decentralized protocol, as opposed to being issued by a centralized issuer, can also be clarified and whether the fact that these instruments can be exchanged only on the secondary market (rather than redeemed against a centralized issuer) entails additional risks for banks holding them.