

Workshop 5

From hype to discipline: regulating and supervising cryptoassets

Chair: David Bailey, Executive Director for Prudential Policy, Bank of England

Cryptoassets have experienced exponential growth over the past decade, transitioning from niche products to a more mainstream and global financial phenomenon. These assets encompass a diverse range of products, from unbacked cryptoassets (cryptoassets without an underlying asset that provides intrinsic value or collateral, such as Bitcoin and Ether), to stablecoins (which aim to maintain a stable value relative to a specific asset or pool of assets) and tokenised representations of traditional assets (digital representations on programmable ledgers). Consequently, the risk profiles of these assets - and the risks they pose to banks - vary significantly.

Although banks' direct exposures to cryptoassets remain limited at present, their interconnections with the crypto ecosystem are steadily increasing. Banks are exploring different, and sometimes new, roles within this evolving landscape, including custody, trading, issuance, and the facilitation of crypto-related services. At the same time, traditional financial market players are adopting elements of crypto technologies, such as tokenisation, smart contracts (self-executing code that triggers an action if certain pre-specified conditions are met) and distributed ledger technology (DLT – a shared, programmable infrastructure to save information and typically used to transfer the value of cryptoassets).

This transformation is reshaping the financial landscape, with cryptoassets influencing not only banks but also the broader financial ecosystem.

Risks and opportunities from the crypto-sphere

Cryptoassets, along with the technologies and arrangements that support them, present several potential opportunities for banks and the broader financial system. These include enabling fractional ownership, broadening access to certain markets, as well as faster and more efficient settlement processes.

However, cryptoassets also introduce new and potentially significant challenges and risks to banks. Certain cryptoassets exhibit a high degree of volatility, and could present risks for banks as exposures increase and banks provide more crypto-related services.¹ As banks' exposures increase, there is also a higher risk that a shock in the cryptoasset ecosystem spills over to the traditional banking system. Separately, the underlying technologies and arrangements, while promising, are still evolving and maturing. This raises questions about their resilience, particularly under stress conditions. Banks relying on these technologies may face heightened operational and reputational risks if these systems fail to perform as expected.

The rapid pace of innovation in the crypto space also poses challenges for regulators and supervisors. Ensuring that risks associated with cryptoassets are adequately managed is particularly complex due to the decentralised, borderless and evolving nature of the different arrangements. As noted in a recent FSB thematic review, the regulatory landscape for crypto activities is still under development

¹ Risks include liquidity risk; credit risk; market risk; operational risk (including fraud and cyber risks); money laundering / terrorist financing risk; and legal and reputational risks.

and remains fragmented.² Cross-border cooperation and coordination is developing but currently has gaps to address given the global nature of cryptoasset markets. Gaps and inconsistencies in the regulation of crypto activities could pose risks to financial stability and to the development of a resilient digital asset ecosystem.

Q1. What crypto activities are you seeing banks most actively involved (or interested) in? What questions are you receiving from banks about their crypto exposures?

Basel Committee's response to cryptoasset risks

The Basel Committee on Banking Supervision (BCBS) has undertaken several measures to address the risks posed by cryptoassets. The Committee has been monitoring market and regulatory developments related to cryptoassets and assessing the impact of such developments on the banking system. To support these activities, the Committee has been conducting periodic data-collection exercises to quantify banks' direct and indirect exposures to cryptoassets. In 2022, the Committee published a standard setting out the prudential treatment for banks' cryptoasset exposures, to be implemented from 1 January 2026.³

The Committee's prudential standard on cryptoassets is built on three principles:

1. **Same risk, same activity, same treatment:** A cryptoasset that provides equivalent economic functions and poses the same risks compared with a "traditional asset" should be subject to the same capital, liquidity and other requirements as the traditional asset. While the prudential framework should apply the concept of "technology neutrality", it should account for any additional risks arising from cryptoasset exposures relative to traditional assets.
2. **Simplicity:** The design of the prudential treatment of cryptoassets should be simple.
3. **Minimum standards:** Any Committee-specified prudential treatment of cryptoassets would constitute a minimum standard for internationally active banks. Jurisdictions would be free to apply additional and/or more conservative measures if warranted.

The Committee's cryptoassets standard differentiates between different types of cryptoassets to determine their appropriate prudential treatment (as illustrated in Figure 1). This structured approach ensures that risks are managed effectively while maintaining a consistent regulatory framework.

Given recent cryptoasset market developments, the Committee agreed to expedite a review of targeted elements of the standard, with an update due to be provided later in 2026.⁴

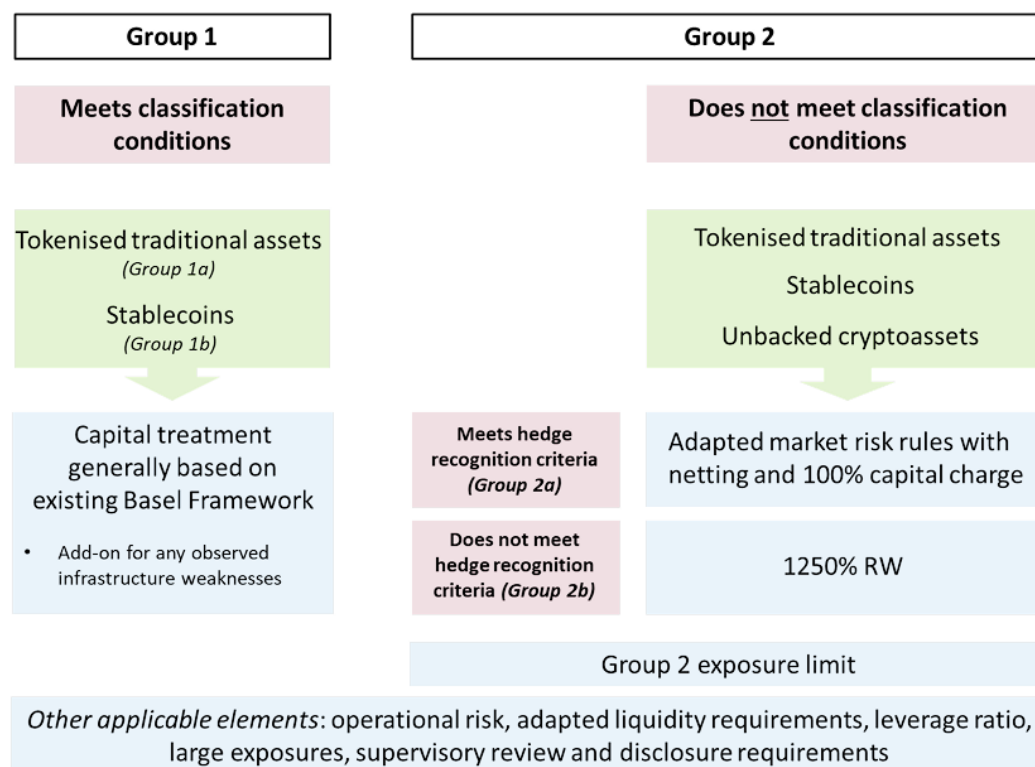
- Q2. What are your jurisdiction's experiences with the implementation of the Basel prudential standards for cryptoasset exposures? What challenges have banks and supervisors faced in adopting these standards within your jurisdictions?
- Q3. How are you supervising banks' involvement in the cryptoasset landscape? What specific challenges have you encountered in monitoring banks' activities related to cryptoassets?
- Q4. How are bank risk management practices to address risks from cryptoassets evolving? What has been your jurisdiction's experience with cross-border cooperation when it comes to monitoring and supervising banks' cryptoasset-related activities?

² FSB 2025

³ BCBS 2022

⁴ Press release: Basel Committee agrees to publish report on information and communication technology risk management, progresses cryptoasset targeted review, considers targeted updates on liquidity risk principles

Figure 1: structure of the Basel framework prudential treatment of cryptoassets



The role of bank risk management

Under the Committee's prudential standard, banks that have direct or indirect exposures to cryptoassets, or that provide related services, must establish robust policies and procedures to identify, assess, and mitigate the risks associated with cryptoassets and related activities on an ongoing basis. The risks banks need to address include cryptoasset technology risks, general information and communication technology (ICT) risks, cyber risks, legal risks, risks related to money laundering and the financing of terrorism, and valuation risks.

Banks, cryptoasset issuers, and intermediaries are advancing their technologies and capabilities to monitor and address emerging risks. This dynamic environment requires continuous adaptation and vigilance. Supervisory evaluation therefore plays a critical role in overseeing cryptoasset-related activities. Supervisors are tasked with reviewing the adequacy and appropriateness of banks' policies and procedures for identifying and assessing these risks, as well as evaluating the quality of the risk assessment outcomes.

An evolving landscape

As the cryptoasset landscape continues to evolve and expand, and as banks take on increasingly diverse roles within this dynamic ecosystem, supervisors need to stay ahead of emerging risks and opportunities. A central challenge will be navigating the delicate balance between mitigating risks to safeguard the resilience and competitiveness of the financial system, while simultaneously creating an environment that does not hamper innovation. This will require a forward-looking approach, thoughtful regulation, and close collaboration between stakeholders to ensure that the financial system remains robust, adaptable, and well-positioned to embrace the transformative potential of new technologies.

Q5. How do you see the role of banks evolving in the crypto ecosystem? How can supervisors continue to address the risks associated with cryptoassets while allowing space for innovation?

References

Basel Committee on Banking Supervision (2022): "Prudential treatment of cryptoasset exposures", Standards, December.

Financial Stability Board (2025): "Thematic Review on FSB Global Regulatory Framework for Crypto-asset Activities", Peer Review Reports, October