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Regulatory issues of stablecoins

18 October 2019

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1. Background

G20 Leaders, in the June Osaka Declaration[1], noted that technological innovations can deliver significant benefits to the financial system and the broader economy. While they stated that crypto-assets do not pose a threat to global financial stability at this point, they also indicated the importance of monitoring developments and remaining vigilant to existing and emerging risks. They welcomed on-going work by the Financial Stability Board (FSB) and other standard-setting bodies and asked them to advise on additional multilateral responses as needed. They also reaffirmed their commitment to applying recently amended FATF standards related to anti-money laundering and countering the financing of terrorism in this field.

A recent development has been the announcement by private sector actors of their intention to launch stablecoin[2]-type arrangements for domestic and cross-border retail payments and remittances, with the potential to reach global scale ("global stablecoins"[3]). This possibility could alter the current assessment that crypto-assets do not pose a material risk to financial stability. Stablecoin arrangements could potentially become a source of systemic risk. In particular, stablecoins:

- Have the potential to grow quickly as a means of payment or a store of value. Their potential user base may be large, particularly if they are linked to other digital services offered by BigTech firms. If they were to have low volatility and great scalability, this may make them attractive as payment instruments, widely used by consumers and accepted by retailers or corporates. As a consequence, stablecoins have the potential to

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1 See https://www.g20.org/en/documents/final_g20_osaka_leaders_declaration.html.

2 A 'stablecoin' can be defined as a crypto-asset designed to maintain a stable value relative to another asset (typically a unit of currency or commodity) or a basket of assets. These may be collateralised by fiat currency or commodities, or supported by algorithms. The term is used to describe a particular set of crypto-assets with certain design characteristics or stated objectives, but the use of this term should not be construed as any endorsement or legal guarantee of the value or stability of these tokens.

3 The term 'global stablecoins' refers to stablecoins with a potential global reach and the ability to rapidly scale in terms of users/holders of the crypto-asset. This term is also descriptive and does not necessarily denote a distinct legal or regulatory classification.

become of systemic importance in individual jurisdictions, including through the substitution of domestic currencies, or even on a global scale.

- Combine characteristics of different financial services, with, for example, features of payment systems, bank deposits, foreign currency exchanges, commodities, and collective investment vehicles.[4] These may, under certain circumstances and if on a sufficiently large scale, individually or through their interaction, give rise to new financial stability risks. For example, the soundness of a stablecoin may depend on how its reserve assets are managed and how redemption rights are designed. Insufficient prudence in this regard might destabilise other parts of the ecosystem.
- Have the potential for extensive and impactful linkages to the existing financial system. Reserve assets could potentially be held in securities or commercial bank deposits. Retail transaction networks that utilise stablecoins could require settlement in fiat currencies. Regulated financial institutions may serve as stablecoin custodians, resellers or market makers. Large usage of stablecoins could potentially affect bank funding mechanisms. There is also potential for a large number of non-financial corporates (e.g. retailers) to carry out transactions.
- Could have financial stability implications through adverse confidence effects, including due to concerns about market manipulation and lack of market integrity, anti-competitive behaviour, lack of adequate data protection, concerns about money laundering, terrorism financing and other illicit financing activities.

At the same time, the emergence of global stablecoins that could be used for cross-border payments and remittances by a large number of users in different countries could provide benefits to the financial system and the broader economy by, for example, lowering transaction costs in retail payments, especially in cross-border situations, or facilitating financial inclusion due to the use of widespread end-user technology (e.g. smartphones) to initiate transactions. Harnessing those potential benefits, while containing associated risks for the financial system, requires adequate and comprehensive regulatory and oversight arrangements to ensure that any potential risks to financial stability and market functions can be identified and adequately addressed.

2. Regulatory and supervisory issues to consider

An effective regulatory and supervisory approach needs to be able to identify, monitor and address potential risks in a reasonable range of scenarios and use cases.

Such an approach requires a clear understanding of the individual components of a stablecoin arrangement and their interaction, including from a legal point of view. These components could include: entities/structures involved in issuing stablecoins; entities/structures that manage assets linked to the coins; infrastructure for transferring coins; market participants/structures facing users (e.g. platforms/exchanges, wallet providers) and the governance structure for the

[4] They may additionally allow the building of new and autonomous financial services by offering a programmable environment.

arrangement, including the role and responsibilities of a possible governance body and the underlying stabilisation mechanism used for the stablecoin.

Building on this understanding of the functioning of a stablecoin arrangement, a first issue is to consider how *existing* regulatory and supervisory frameworks and practices could apply to a stablecoin arrangement. A stocktake of how existing regulatory and supervisory frameworks and practices address the risks arising from the individual elements of a stablecoin arrangement, as well as the arrangement holistically, would therefore be the basis for the assessment of whether gaps remain and how national authorities can identify and address those gaps. Importantly, the assessment would also have to consider the interactions among different elements of a stablecoin arrangement, such as the implications of a rapid change in the composition of the reserve, or a large scale redemption of stablecoins.

In light of existing national regulatory and supervisory frameworks, individual authorities may consider different approaches towards stablecoin arrangements. Hence, a second set of issues relates to how existing regulatory and supervisory frameworks and practices interact in a cross-border and cross-authority context. This may include questions about how existing national regulatory and supervisory frameworks interact to ensure that risks can be identified and addressed wherever the individual components of a stablecoin arrangements may be located jurisdictionally; to what extent different regulatory classifications of stablecoins under existing national regimes (e.g. securities, payment instruments) or supervisory approaches could give rise to regulatory arbitrage; and how national regulatory and supervisory authorities need to coordinate to ensure effective regulatory and supervisory oversight and address any risk of regulatory arbitrage.

Finally, and related to the previous set of issues, stablecoin arrangements might give rise to regulatory and supervisory challenges at the international level. Such challenges could involve the compatibility of national approaches or potential outright gaps resulting from the global nature of stablecoin arrangements. Hence, analysis would focus on understanding how the existing international standards and principles support effective regulatory and supervisory cooperation in addressing risks to global financial stability and market functioning arising from stablecoins; and what, if any, actions may be needed to further strengthen cooperation and coordination to address global financial stability and systemic risk concerns.

3. Way forward

In order to implement the G20 mandate, the FSB will:

- Take stock of existing supervisory and regulatory approaches and emerging practices in this field, with a focus on cross-border issues and taking into account the perspective of emerging markets and developing economies.
- Based on the stocktake, consider whether existing supervisory and regulatory approaches are adequate and effective in addressing financial stability and systemic risk concerns that could arise from the individual components of a stablecoin arrangement or their interaction as an ecosystem as a whole.

- Advise on possible multilateral responses, if deemed necessary, including developing regulatory and supervisory approaches to addressing financial stability and systemic risk concerns at the global level.

In the process, building on the G7 work, the FSB will engage with FSB member authorities and jurisdictions represented in the FSB's regional consultative groups, international financial institutions, standard-setting bodies and other international groups, including FATF, CPMI and IOSCO, to gather information on the specific issues identified in stablecoin arrangements with potentially a global footprint. The FSB will also engage with stakeholders through outreach meetings and a public consultation.

The FSB will submit a consultative report to the G20 Finance Ministers and Central Bank Governors in April 2020, and a final report in July 2020.