



# International Regulation of Crypto-asset Activities

A proposed framework – questions for consultation



11 October 2022



### Questions for consultation

The FSB is inviting comments on its proposed set of recommendations and on the questions set out below. Responses should be sent to [fsb@fsb.org](mailto:fsb@fsb.org) by 15 December 2022. Responses will be published on the FSB's website unless respondents expressly request otherwise.

#### General

1. Are the FSB's proposals sufficiently comprehensive and do they cover all crypto-asset activities that pose or potentially pose risks to financial stability?
2. Do you agree that the requirements set out in the CA Recommendations should apply to any type of crypto-asset activities, including stablecoins, whereas certain activities, in particular those undertaken by GSC, need to be subject to additional requirements?
3. Is the distinction between GSC and other types of crypto-assets sufficiently clear or should the FSB adopt a more granular categorisation of crypto-assets (if so, please explain)?
4. Do the CA Recommendations and the GSC Recommendations each address the relevant regulatory gaps and challenges that warrant multinational responses?
5. Are there any financial stability issues that remain unaddressed that should be covered in the recommendations?

#### Crypto-assets and markets (CA Recommendations)

6. Does the report accurately characterise the functions and activities within the crypto-ecosystem that pose or may pose financial stability risk? What, if any, functions, or activities are missing or should be assessed differently?
7. Do you agree with the an

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## Overview

Crypto-assets and markets must be subject to effective regulation and oversight commensurate to the risks they pose. The turmoil earlier this year highlighted a number of structural vulnerabilities in those markets. It exposed inappropriate business models, significant liquidity and maturity mismatches, the extensive use of leverage, and a high degree of interconnectedness within the crypto-asset ecosystem. These vulnerabilities were amplified by a lack of transparency and disclosures, flawed governance, inadequate consumer and investor protections, and weaknesses in risk management. While the limited spillovers outside the crypto-asset ecosystem reflect the still low interconnectedness with the traditional financial system, the situation could change rapidly as crypto-asset markets recover. If interconnections continue to grow, the failure of a major market player, in addition to imposing potentially large losses on investors, may have spillover effects on traditional finance such as short-term funding markets and on the real economy. Crypto-asset markets are fast evolving and could reach a point where they represent a threat to global financial stability due to their scale, structural vulnerabilities and increasing interconnectedness with the traditional financial system. The rapid evolution and international nature of these markets also raise the potential for fragmentation or arbitrage. Although the extent and nature of crypto-asset use varies somewhat across jurisdictions, financial stability risks could rapidly escalate, underscoring the need for both timely and pre-emptive evaluation of possible policy responses as well as regulatory action where existing requirements apply.

An effective regulatory framework must ensure that crypto-asset activities are subject to comprehensive regulation, commensurate to the risks they pose, while harnessing potential benefits of the technology behind them. Such regulation should ensure equivalent regulatory outcomes where they pose risks similar to those posed by traditional financial activities, while addressing novel features of crypto-assets. In some instances this may require the application of existing rules to crypto-assets, in others it may require new guidance or regulation specific to crypto-assets to deliver equivalent outcomes. Where crypto-assets and intermediaries perform an equivalent economic function, they should be treated as such.



Jurisdictions' regulatory approaches need to capture the novel features of crypto-asset activities that can give rise to financial stability risks. Users of both stablecoins and other crypto-assets rely on critical services of issuers, wallet providers and other intermediaries, which can pose significant risks. The extensive use of distributed ledger technology as well as the decentralized nature of operations and/or governance have contributed to opaqueness and lack of

have amended, plan to amend, or have applied existing rules to bring stablecoin arrangements within their jurisdiction's regulatory perimeter. Regulation motivated by financial stability considerations complements other regulation to ensure adequate transparency, accountability,



Regulatory and supervisory guardrails must address the potential sources of financial stability risks around different types of crypto-assets and markets. Crypto-asset issuers, intermediaries, and service providers must be subject to adequate requirements for governance, risk management, reporting and disclosure proportionate to the size, complexity, and risks of their

**Table: Coverage of the CA and GSC Recommendations**

<b>Regulatory principle</b>	<b>Coverage in GSC recommendations</b>	<b>Coverage in CA recommendations</b>
<b>Regulatory Powers</b>	GSC Rec 1	CA Rec 1
<b>Comprehensive oversight</b>	GSC Rec 2	CA Rec 2
<b>Cross-border cooperation</b>	GSC Rec 3 with an Annex	CA Rec 3
<b>Governance</b>	GSC Rec 4	CA Rec 4
<b>Risk management</b>	GSC Rec 5	CA Rec 5
<b>Data management</b>	GSC Rec 6	CA Rec 6
<b>Recovery and resolution planning</b>	GSC Rec 7	CA Rec 5
<b>Disclosures</b>	GSC Rec 8 with an Annex	CA Rec 7
<b>Monitoring of interconnections within the crypto-asset ecosystem and with the wider financial system</b>		CA Rec 8
<b>Compliance before operation</b>	GSC Rec 10	CA Rec 1
<b>Redemption rights and stabilisation mechanisms</b>	GSC Rec 9	

stability stemming from decentralized finance (DeFi) and will consider in 2023 whether additional policy work is warranted based on the findings from this work.

The SSBs will continue to examine and make revisions as needed to their standards and principles or provide further guidance supplementing existing standards and principles in light of the FSB recommendations once these have been finalised. The BCBS, CPMI, IOSCO and FATF will continue to examine regulatory, supervisory and oversight issues and coordinate with each other and with the FSB to ensure that crypto-assets and markets are subject to effective regulation and oversight commensurate to the risks they pose.

The FSB will review progress in the implementation of its final recommendations by end-2025. The review involves taking stock of the regulatory measures adopted by FSB member jurisdictions and their outcomes, including analysis of relevant developments in crypto-asset markets. The findings from this exercise may help inform a further review of the recommendations or development of implementation guidance as necessary.