

# Basel Committee confirms prudential standard for cryptoassets

## AT A GLANCE

December 2022

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### What's new?

- The Basel Committee (Committee) [published](#) its final rules on the prudential treatment of cryptoasset exposures on 16 December 2022.
- Unbacked cryptoassets and stablecoins with ineffective stabilisation mechanisms will be subject to a conservative prudential treatment.
- Now the international standards have been agreed, the PRA is likely to consult on their implementation in the UK.

### What does this mean?

- The structure of the final standard follows the second proposal [issued](#) in June 2022. Banks are required to classify cryptoassets on an ongoing basis into two groups.
- **Group 1 assets** must meet in full a set of classification conditions. The assets in this Group include tokenised traditional assets which pose the same level of credit and market risk as the non-tokenised form of the asset (1a assets) and cryptoassets with effective stabilisation mechanism, linking the value to one or more traditional assets (stablecoins) (1b assets).
- While, the capital requirements for group 1 assets generally follow the existing Basel Framework, an infrastructure risk add-on to risk-weighted assets (RWA) may apply if weaknesses are identified in the underlying exposure on which the cryptoassets is based.
- Group 1 stablecoins must also satisfy a redemption risk test and an additional supervision/regulation requirements which are likely to evolve in the future.
- Group 1 excludes algorithmic stablecoins and coins using protocols to maintain their value.
- **Group 2 cryptoassets** do not meet the classification conditions for Group 1 and are subject to a new conservative capital treatment. These assets include tokenised traditional assets and stablecoins which fail the group 1 classification conditions as well as all un-backed cryptoassets.
- An additional hedging recognition criteria sets the conditions for those Group 2 assets where a limited degree of hedging can be recognised (2a) and where hedging is not recognised (2b).
- Banks' total exposure to Group 2 assets must not exceed 2% limit of the Tier 1 capital and should generally be lower than 1%.
- Exposures under the 1% threshold will be risk-weighted according to whether the asset does or does not meet the hedging recognition criteria for Group 2a assets.
- Banks breaching the 1% limit expectation must apply Group 2b capital treatment (1250% risk weight) to the amount by which the limit is exceeded. Where 2% limit is exceeded, the whole of Group 2 exposures are subject to the Group 2b capital treatment.
- Additional operational risk, liquidity, leverage ratio and large exposure, supervisory review and disclosure requirements apply to both Groups.

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### Other confirmations

- The finalised rules also include a number of changes to the [second consultation](#).
- The Group 1 infrastructure risk add-on has been amended from a fixed 2.5% RWA to a flexible approach based on authorities' observations.
- The Committee has not implemented a basis risk test for Group 1b assets (stablecoins).
- The Group 2 threshold of 1% of the Tier 1 capital has been modified. Exposures are measured as the higher of the gross long and gross short position in each asset. The capital consequences of breaching the Group 2 exposure limits have also been amended (as outlined on the previous page).
- Banks do not require a prior supervisory approval for the asset classifications, but must notify supervisors.
- Clarifications on the requirements in relation to custodial services.
- In addition to the overall monitoring of the standard, the Committee will focus on certain key issues:
  - Additional requirements on statistical and redemption risk test application in relation to Group 1b assets (stablecoins);
  - Inclusion of permissionless blockchain assets into Group 1;
  - Assessment on whether Group 1b cryptoassets (stablecoins) could be used as collateral for capital requirements purposes;
  - Criteria and degree of hedge recognition for Group 2a assets; and
  - Group 2 exposure limits.

### What do firms need to do?

- Given the significant capital and compliance implications, firms will need to consider their potential or ongoing involvement in this market and the impact of appropriate due diligence on business decisions.
- The PRA's [letter](#) to firms earlier this year set out the current expectations on firms' exposures to cryptoassets. The PRA may issue a consultation on long-term framework changes where this results in proposed changes to the regulatory framework.
- Therefore, firms should consider the Committee's final rules in the context of their likely implementation in the UK through PRA rules and in the EU through CRR.
- Given that the pace and depth of related regulatory and supervisory measures across major banking jurisdictions is likely to increase, UK banks should expect a similar level of scrutiny in relation to their involvement in cross-border cryptoasset markets. For more information, please see [PwC's Crypto Regulation 2023](#) report.
- Firms should also note that the Committee's stated implementation date of 1 January 2025 aligns with the UK and EU proposed deadline for their implementation of the Basel 3.1 reform package.
- Firms may need to factor these proposals into their planning, particularly if the UK and EU formally incorporate the Committee's standard into their approach to Basel 3.1 implementation.

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### Next steps

The Committee will implement the standards by 1 January 2025. The text will be incorporated into the consolidated Basel Framework soon.

[www.pwc.co.uk/regdevelopments](http://www.pwc.co.uk/regdevelopments)

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