CPMI-IOSCO set out expectations for stablecoins

AT A GLANCE

October 2021

What's new?

- The Committee on Payments and Market Infrastructures (CPMI) and the International Organization of Securities Commissions (IOSCO) issued a consultative report on stablecoins on 6 October 2021.
- CPMI-IOSCO propose to apply the Principles for Financial Market Infrastructures (PFMI) to systemically important stablecoin arrangements (SAs).
- The preliminary guidance confirms that stablecoin arrangements should observe international standards for payment, clearing and settlement systems.

What does this mean?

- Stablecoins are digital tokens issued by the private sector which stabilise their value by referencing one or more assets, such as fiat currency or a commodity.
- An SA is an arrangement which combines a range of functions to provide an instrument that claims to be used as a means of payment and/or store of value.
- CPMI-IOSCO highlight the rapidly evolving payments landscape, including the impact of operators of SAs.The report sets out the authorities' view that the role an SA undertakes is comparable to other FMIs. Because of this an SA performing a transfer function should be considered an FMI for the purposes of applying the PFMI.
- As SAs are primarily used for making payments, the principles applicable to payment systems are set to apply in their entirety to SAs performing a transfer function, based on a functional approach.
- The report notes that SAs have some novel features, requiring additional guidance, including:
  - the use of stablecoins, which are neither central bank money nor commercial bank money, and the safety of an SA's money settlements
  - multiple interdependent functions
  - new features, such as distributed and/or automated technology protocols as well as decentralisation of operations and/or governance facilitated by the use of these technology protocols.
- The report also identifies four overarching considerations for determining the systemic importance of an SA.
- These are the size of the SA, nature and risk profile of the SA's activity, type of stablecoin users and type or nature of transactions.

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- Finally, the report sets out guidance on the application of the PFMI to SAs.
- Systemically important SAs are expected to have in place appropriate governance and risk management arrangements.
- Firms should provide clear and final settlement, regardless of the operational settlement method used.
- A stablecoin used by a systemically important SA for money settlements should have little or no credit or liquidity risk.
- The report does not cover issues specific to stablecoins denominated in or pegged to a basket of fiat currencies (multicurrency SAs) which will be covered in future work.
- CPMI-IOSCO may examine further regulatory, supervisory and oversight issues associated with SAs and coordinate with other standard setting bodies.

What do firms need to do?

- The report echos the views expressed by many other international regulators: businesses which pose equivalent risks and/or have the same risk profile should follow the same rules.
- The proposals do not create additional standards for SAs, beyond those set out in the PFMI, but provide clarity to systemically important SAs and relevant authorities.The proposals mirror HM Treasury's earlier consultation on stablecoins.
- SAs should be prepared to meet all of the relevant principles, including those not specifically covered in this consultative report.
- International and national regulators continue to explore and expand the parameters and frameworks around cryptoassets, reflecting their growing importance in the global financial system. Firms should keep up to date and be ready to comply with these developments.
- For more information, see the Financial Stability Board's report on regulation, supervision and oversight of global stablecoin arrangements, published on 7 October 2021.

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Next steps
The consultation closes on 1 December 2021, and a final report will be published at a later date. National authorities may consider how to incorporate the requirements into national regulatory, supervisory and authorisation frameworks.