

# IOSCO sets out recommendations to mitigate DeFi risks

## AT A GLANCE

September 2023

### What's new?

- The International Organization of Securities Commissions (IOSCO) issued nine policy recommendations to address market integrity and investor protection concerns arising from decentralised finance (DeFi), in a [consultation](#) published on 7 September 2023.
- The DeFi guidelines are designed to complement the [crypto and digital assets recommendations](#) published in May 2023 by IOSCO. Once finalised, the consolidated framework will provide international guidelines for both crypto and digital assets and DeFi.

### What does this mean?

- IOSCO published proposed recommendations to help its members apply existing IOSCO standards to DeFi products and activities through their own regulatory framework.
- The recommendations are principles-based, outcomes-focused and cover a broad range of areas including: risk management, disclosure requirements, international cooperation, standards and regulatory outcomes.

#### *Nine recommendations for addressing DeFi risks*

- **Assess regulatory responses to DeFi activities:** this requires a deep understanding of DeFi offerings and determining the necessary technological knowledge and tools for informed regulatory actions.
- **Identify responsible persons:** responsible persons include those exercising control or sufficient influence over a DeFi arrangement or activity.

- **Achieve common standards of regulatory outcomes:** the approach should ensure regulatory outcomes for investor protection and market integrity are comparable to traditional financial markets.
- **Identify and address conflicts of interest:** regulators should mandate DeFi providers and relevant parties to identify and manage conflicts of interest. Regulators should assess whether some conflicts require stronger actions such as legal disaggregation and separate registration.
- **Identify and address material risks:** these risks include operational and technology risks and should be identified and effectively managed and mitigated. Regulators should consider whether certain risks may require more robust measures.
- **Require clear, accurate and comprehensive disclosures:** regulators should seek to require providers of DeFi products and services and other responsible persons, to accurately disclose to users and investors comprehensive and clear information material to the products and services offered.

### Contacts

#### Conor MacManus

Director

T: +44 7718 979428  
E: [conor.macmanus@pwc.com](mailto:conor.macmanus@pwc.com)

#### Laura Talvitie

Senior Manager

T: +44 (0) 7483 304630  
E: [laura.talvitie@pwc.com](mailto:laura.talvitie@pwc.com)

#### Hugo Rousseau

Manager

T: +44 (0) 7484 059376  
E: [hugo.rousseau@pwc.com](mailto:hugo.rousseau@pwc.com)



# AT A GLANCE

September 2023

## Contacts

### Conor MacManus

Director

T: +44 7718 979428

E: conor.macmanus@pwc.com

### Laura Talvitie

Senior Manager

T: +44 (0) 7483 304630

E: laura.talvitie@pwc.com

### Hugo Rousseau

Manager

T: +44 (0) 7484 059376

E: hugo.rousseau@pwc.com

- **Enforce applicable laws:** regulators should thoroughly oversee DeFi products and activities under both existing and new frameworks. This includes having the power to authorise, inspect, investigate, and enforce compliance. They should also determine what technology, data, and tools they need to uphold the laws effectively.
- **Promote cross-border cooperation:** this entails having mechanisms for cooperation and information exchange with regulators and relevant authorities in other jurisdictions, facilitating both the authorisation / supervision of regulated entities and aiding in enforcement investigations.
- **Analyse links between DeFi, the wider crypto market, and traditional finance:** regulators should understand how these connections impact investor protection and market integrity, and use appropriate methods to monitor and evaluate DeFi offerings.
- Firms should assess their current governance, operations, technology and related risk frameworks against the proposed guidelines and take early steps to identify and close gaps.
- Firms will need to proactively identify and manage any conflicts of interest, particularly if they offer a range of products and services or have affiliates that might pose potential conflicts.
- The emphasis on cross-border cooperation means firms operating in multiple jurisdictions might see more harmonised regulatory approaches to DeFi. They will also need to be prepared for cooperative international investigations and compliance checks.

## What does this mean for firms?

- The proposed guidelines provide a framework for standardising DeFi operations across all IOSCO members' jurisdictions.
- The guidance does not carry a legal status, but provides an important roadmap for national authorities. Firms should consider the standards in the context of the likely implementation into their local regulation.

## Next steps

The consultation closes on 19 October 2023. IOSCO will issue the final guidance by the end of 2023, in line with its [Crypto-Asset Roadmap](#) published in July 2022.



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

This content is for general information purposes only, and should not be used as a substitute for consultation with professional advisors.

© 2023 PricewaterhouseCoopers LLP. All rights reserved. PwC refers to the UK member firm, and may sometimes refer to the PwC network. Each member firm is a separate legal entity. Please see [www.pwc.com/structure](http://www.pwc.com/structure) for further details.