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Ms. Tara Rice
Head of Secretariat
Bank of International Settlements
Committee on Payments and Market Infrastructures
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VIA EMAIL

Attention: CPMI Secretariat
cpmi@bis.org

Mr. Martin Moloney
Secretary General
International Organization of Securities Commissions
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VIA EMAIL

Attention: IOSCO Secretariat
consultation-03-2021@iosco.org

Re: Consultative Report: Application of the Principles for Financial Market Infrastructures to Stablecoin Arrangements

Dear Ms. Rice and Mr. Moloney,

The Chamber of Digital Commerce (the “Chamber”) and its members appreciate the efforts of the Bank of International Settlements Committee on Payments and Market Infrastructures (“CPMI”) and the International Organization of Securities Commissions (“IOSCO”) as they evaluate revising its standards and principles as it relates to stablecoins, and to provide further guidance supplementing existing standards and principles as needed.¹

Established in 2014, as the world’s first and largest blockchain trade association, the Chamber’s mission is to promote the acceptance and use of digital assets and blockchain technology, and we are supported by a diverse membership that represents the blockchain industry globally. We represent the world’s leading innovators, operators, and investors in the blockchain ecosystem,

¹ [Consultative report](#): Application of the Principles for Financial Market Infrastructures to stablecoin arrangements, Committee on Payments and Market Infrastructures and Board of the International Organization of Securities Commissions Oct. 2021.

including leading edge startups, software companies, financial institutions, and investment firms. More than a dozen of our members are involved in stablecoin projects.

In our 2020 report, *Understanding Digital Tokens: Market Overviews and Guidelines for Policymakers and Practitioners*, we defined stablecoins as: “A [digital] token for which the value is pegged to an external value, such as fiat currency, cryptocurrency, or other financial asset, or an algorithm, designed to limit price volatility.”² We further defined a digital token as “computer code maintained on a blockchain-based ledger that [is] secured using cryptography, with each token typically representing a specific value or amount on the ledger.”³

Digital tokens promise to bring tremendous improvements to our financial system by enabling frictionless, instantaneous transferability of value. Stablecoins, a type of digital payments instrument, bridge the gap between the innovations of digital tokens and the functionality of legacy payment systems. Stablecoins promise faster, lower-cost payments, as well as the opportunity for greater financial inclusion. In particular, the proliferation of stablecoins built upon open blockchains could bring about immeasurable uses and applications across the economy due to the programmable nature of these payments’ instruments.⁴ Thus, as policymakers contemplate the proper regulatory treatment of stablecoins, we encourage them to seek a balanced approach that appropriately mitigates risk without stifling innovation.

With this in mind, we would like to emphasize the following points:

- Fiat currency-pegged stablecoins, like other forms of retail-focused digital payments instruments, can underpin efficient payments systems that facilitate wider financial inclusion by reducing the costs of basic financial services, adding transparency to the financial system, and overcoming the lack of trust felt by communities underserved by the existing financial system.
- U.S.-headquartered stablecoin payments systems, or payments systems built upon stablecoins, are already well-regulated at the state and federal level.⁵ Stablecoins themselves should be regulated similarly to other retail-focused digital payments instruments, as opposed to being regulated as securities under federal securities

² [“Understanding Digital Tokens: Market Overviews and Guidelines for Policy Makers and Practitioners”](#) (second edition), Chamber of Digital Commerce, January 2020, 22.

³ *Ibid.*, 12.

⁴ For example, smart contracts could ensure that payments will be received upon the delivery of goods or services. See Eswar Prasad, [“Five myths about cryptocurrency,”](#) Brookings Institution, May 4, 2021 (explaining that “digital tokens representing money . . . could ease electronic transactions that involve transfers of assets and payments, often without trusted third parties such as real estate settlement attorneys”). See also Jeremy Allaire (@jerallaire) referring to stablecoins as “dollar[s] on the internet” with use cases ranging from start-up financing, international logistics, and worldwide payroll, [Twitter](#), September 27, 2021.

⁵ Notably, in situations where a U.S. dollar-pegged, cryptocurrency-backed stablecoin is generated through users interacting with open-source software, there is not an intermediary in the creation of the underlying stablecoin. However, regulated intermediaries may be involved in the distribution (e.g., through centralized exchanges) and use (e.g., through regulated businesses, such as lending) of these types of stablecoins.

regulation. It is important that regulators avoid imposing an overly rigid regulatory regime that stifles innovation.

- No stablecoin payments system currently poses a systemic risk to the U.S. financial system. If regulators determine that certain large stablecoin payments systems pose unique risks or require additional oversight, it is important for U.S. regulatory responses to be tailored and tiered so that the potential benefits from emerging stablecoin innovations can flourish.

Blockchain technology is changing the global financial system to create a more technologically advanced and inclusive financial future, and stablecoins are a tool driving this change. Policymakers have a unique opportunity to establish regulatory regimes that are principles-based, flexible, and tailored to the minimal risk that stablecoins present to the financial system. To do so, we recommend allowing for stablecoin payments systems to be regulated in the same way that other retail-focused digital payment businesses are regulated.

CONSULTATION QUESTION RESPONSES

Applicability of the PFMI to SAs

1. Is it clear when SAs are considered FMIs for the purposes of applying the PFMI?

In our view, (1) the term “SA” is not sufficiently well defined, and (2) it is unclear whether an SA can itself be an FMI. The PFMIs define “financial market infrastructure” (“FMI”) as “a multilateral system among participating institutions, including the operator of the system, used for the purposes of clearing, settling, or recording payments, securities, derivatives, or other financial transactions.”⁶ According to the SA Report, “[t]he transfer function of an SA is comparable to the transfer function performed by other types of financial market infrastructure (FMI). As a result, an SA that performs this transfer function is considered an FMI for the purpose of applying the PFMI.”⁷

In our view, the SA Report is not clear on what constitutes an SA. The SA Report refers to the FSB definition of “stablecoin arrangement” in footnote 16. Under that definition, an SA is “[a]n arrangement that combines a range of functions (and the related specific activities) to provide an instrument that purports to be used a means of payment and/or store of value.”⁸ Further, Annex A to the SA Report sets out functions and activities in a stablecoin arrangement. Annex A describes functions, activities, and operational design elements in an SA. Functions include

⁶ [Principles for financial market infrastructures](#), Committee on Payment and Settlement Systems and Technical Committee of the International Organization of Securities Commissions, April 2021, 176.

⁷ [Consultative report: Application of the Principles for Financial Market Infrastructures to stablecoin arrangements](#), Committee on Payments and Market Infrastructures and Board of the International Organization of Securities Commissions, October 2021, 4.

⁸ *Ibid.*, 11, 16.

governance of the arrangement; issuance redemption and stabilization of the stablecoin value; transfers of coins and interaction with user.⁹ We note that stablecoins can be purchased or created, they can be held in a variety of wallets of the stablecoin holders' choosing, they can trade on a variety of digital asset trading platforms or can directly transfer wallet to wallet, and those transfers occur on a blockchain, typically a public blockchain. There typically are no arrangements that govern how the preceding tie together. Thus, stablecoins do not appear to fit the somewhat vague description of SA set out in the SA Report and there does not appear to be a multilateral "system" on which stablecoins trade, clear and settle. Given the lack of clarity as what an SA is, there is even less clarity as to when, or even if, an SA is an FMI.

The "Report on Stablecoins" (the "PWG Report") that the U.S. President's Working Group on Financial Markets recently issued states that "stablecoins are predominantly used in the United States to facilitate trading, lending, and borrowing of other digital assets."¹⁰ The PWG Report further noted that "digital asset trading platforms and other intermediaries also play a key role in providing access to and enabling trading of stablecoins, as well as in the stabilization mechanisms of stablecoin arrangements."¹¹

Based on our understanding of what constitutes a stablecoin and a SA, it does not appear that a SA, nor an entity that facilitates the transfer of stablecoin would be an FMI.

Platforms that facilitate transfers of stablecoins are subject to extensive regulation in the United States at both the state and federal level. Stablecoin payment systems focused on the U.S. retail market, i.e., digital asset trading platforms, are typically regulated under state-level money-transmitter licensing. State money transmitter laws vary from state to state¹² and are aimed at a range of policy goals including protecting consumers, maintaining public confidence in payment businesses, protecting against default of payment instruments, preventing money laundering, and eliminating financial fraud.¹³

While most states simply apply the same regime created for other payment services to virtual currencies, other states, such as Louisiana and New York, have crafted special licensing regimes for virtual currency-focused money transmission businesses.¹⁴ New York's Virtual Currency regulation, "BitLicense," contains a host of compliance policies, including capital requirements, consumer protection and asset custody standards, bookkeeping policies, anti-money laundering requirements, and cybersecurity programs.¹⁵

⁹ Ibid., 22.

¹⁰ [Report on Stablecoins](#), President's Working Group on Financial Markets, the Federal Deposit Insurance Corporation and the Office of the Comptroller of the Currency, November 2021.

¹¹ Ibid.

¹² Importantly, states have undertaken significant efforts to coordinate their regulatory regimes. [Model Money Transmission Modernization Act](#), Conference of State Bank Supervisors, September 2021.

¹³ [The Case for Preempting State Money Transmission Laws for Crypto-Based Businesses](#), Carol R. Goforth, Arkansas Law Review, 73 Ark. L. Rev. 301, 2020, 316.

¹⁴ 23 NYCRR Part 200; 6 La. Rev. Stat. 21, §1381 – 1394.

¹⁵ 23 NYCRR Part 200.

A host of federal agencies may also possess and exercise regulatory authority over stablecoin payments systems focused on the U.S. retail market. As a general matter, entities performing functions integral to stablecoin payments systems are required to register with FinCEN and follow FinCEN regulations as a money servicing business.¹⁶ FinCEN guidance requires entities performing functions integral to these stablecoin payments systems to comply with anti-money laundering (“AML”) and sanctions requirements.¹⁷ This is consistent with the Financial Action Task Force’s standards.¹⁸

Additionally, stablecoins that are considered commodities or derivatives are subject to the Commodity Futures Trading Commission’s (CFTC) anti-fraud and anti-manipulation authority.¹⁹ The Consumer Financial Protection Bureau (CFPB) also has jurisdiction over stablecoin payments systems under its payment instruments authority, which includes, for example, the authority to enforce against “unfair, deceptive, or abusive acts or practices.”²⁰ Also, while not mandatory, the OCC has permitted entities performing functions integral to stablecoin payments systems to apply to be chartered as national trust banks if they meet certain requirements.²¹

Considerations for determining the systemic importance of an SA

2. Are the suggested considerations for determining the systemic importance of SAs clear, comprehensive and useful? Are there any risks or considerations missing?

The SA Report could benefit from more specificity with respect to how the systemic importance of SAs is determined. Section 2 of the SA Report details four broad considerations that should be assessed in connection with whether an SA is a systemically important FMI, namely: (1) size of the SA, (2) nature and risk of the profile of the SA’s activity, (3) interconnectedness and interdependencies of the SA with the real economy and financial system, and (4) substitutability, that is, whether there are available alternatives to using the SA as a means of payment or settlement for time-critical services. However, these are less detailed subsets of considerations

¹⁶ 18 USC § 20, including in the definition of financial institution “any person who engages as a business in the transmission of funds.” See also [Bank Secrecy Act Regulations, Definitions and Other Regulations Relating to Money Services Businesses](#), 76 FR 43585, 43596, July 2011. This expanded the definition of “money transmission services” to include “the acceptance of currency, funds, or other value that substitutes for currency from one person and the transmission of currency, funds, or other value that substitutes for currency to another location or person by any means.” Notably, in situations where a U.S. dollar-pegged, cryptocurrency-backed stablecoin is generated through users interacting with open software, there appears to be no need for any entity related to the generation of that stablecoin register with FinCEN. [Application of FinCEN’s Regulations to Certain Business Models Involving Convertible Virtual Currencies](#), FinCEN, May 2019, 23-24, 27.

¹⁷ [Application Of FinCEN’s Regulations to Persons Administering, Exchanging, Or Using Virtual Currencies](#), FinCEN, March 2013.

¹⁸ [FATF Report to the G20 Finance Ministers and Central Bank Governors on So-called Stablecoins](#), Financial Action Task Force, June 2020, 11.

¹⁹ [Understand the Risks of Virtual Currency Trading](#), CFTC, accessed December 2021. The advisory states that “the CFTC maintains general anti-fraud and manipulation enforcement authority over virtual currency cash markets as a commodity in interstate commerce.”

²⁰ [Unfair, Deceptive, or Abusive Acts or Practices \(UDAAPs\) examination procedures](#), CFPB, October 2012.

²¹ [OCC Conditionally Approves Chartering of Paxos National Trust](#), OCC, April 2021.

already in use by US financial institution regulators to determine whether a company should be designated as “systemically important”.

As noted above, it is unclear, and perhaps doubtful, as to whether an SA meets the definition of an FMI. Under U.S. law, an SA, or the components of an SA, may qualify as a financial market utility or a nonbank financial institution. Under section 804 of the Dodd Frank Act, FSOC may designate a financial market utility, or a payment, clearing or settlement activity, to be systemically important. There are four factors which FSOC is required to consider in making its determination. Notably, FSOC has only designated only eight market utilities²² as systemically important, none of which are payments systems and all of which, measured by membership and asset size, dwarf any stablecoin arrangements or their related entities. Moreover, in connection with determining whether a nonbank financial institution is systemically important, section 113 (a) of the Dodd Frank Act uses 10 separate factors in its considerations.²³ Once so designated, the company becomes subject to “enhanced supervision” and “prudential standards”, as well as the possibility of “additional standards” that, taken together, comprise nine additional factors. The Financial Stability Oversight Council (FSOC) distilled those 10 considerations into six factors. Of course, in the case of stablecoins, the business model and the technology which supports them are significantly different from a typical non-financial institution. Hence, more specificity would be of great value in helping the industry understand how to evaluate which stablecoin arrangements and users would meet the systemically important test.

Achieving this precision may be assisted by the compilation of market data and the development of models regarding how SAs act under different forms of market-related stress. Notably, the SA Report’s Executive Summary uses qualifying language such as the “*potential* impact” of SAs on the financial system and the fact that SAs “*may* present some notable and novel features as compared with existing FMIs.” The need for precision in the SA Report is underscored by the fact that it does not cover issues specific to stablecoins pegged to a basket of fiat currencies. Thus, the SA Report appears to cover stablecoins which are more complex, such as those which settle algorithmically or with digital assets. Given that complexity, burdening the industry with an extensive body of regulation should not be based on assumption or speculation but on data and analysis.

The absence of further data and analysis also makes two components of systemic importance difficult to determine, that is, first, whether the SA itself would be vulnerable to financial distress during a crisis and, second, whether such distress would pose a realistic, as opposed to a speculative, threat to the financial system. This analysis should come before, not after, a determination of systemic importance.

²² The Clearinghouse Payments Company, LLC; CLS Bank International; Chicago Mercantile Exchange Inc; The Depository Trust Company; Fixed Income Clearing Corporation; ICE Clear Credit LLC; National Securities Clearing Corporation; and The Options Clearing Corporation.

²³ [12 U.S.C. sec. 5323 \(a\)](#) - Authority to require supervision and regulation of certain nonbank financial companies

Notably, in the United States, a nonbank financial institution is only designated as “systemically important” if its distress “could pose a threat to the financial stability of the United States.” Whether the failure or financial distress of an SA could pose such a broad threat, either to the U.S. economy or to that of the country of a BIS member bank, would seem to call for a phased, in-depth analytic process, which the SA Report does not undertake. There are tools available for such analysis. For example, the FSOC’s “Guidance for Nonbank Financial Company Determinations” [of Systemic Importance],²⁴ requires application of appropriate analytics and quantitative metrics to “measure both the susceptibility of a non-bank financial company to financial distress and the potential for that nonbank financial companies distress to spread throughout the financial system.”²⁵

Moreover, the SA Report lacks an analysis of the costs associated with the additional regulation on SAs and other market participants. The SA Report appears to assume, without more, that additional regulation is good thing. In the United States, regulatory agencies are bound to take the costs of regulation into account before regulating. Particularly in this case, where the markets for the use of SAs are new, the products are complex, and the historic record is thin, closely analyzing how different SAs (particularly those based on algorithms or tied to digital assets) would seem to be at a premium. In the absence of such analysis, regulating based on assumptions would seem to run the risk of creating more difficulties than it might avoid. [See, *Met Life and Michigan v. EPA*, 135 S. Ct. 2699 (2015).] As noted by Cass Sunstein, the former administrator of the Office of Information and Regulatory Affairs during the Obama Administration: “[w]ithout some sense of both costs and benefits — both non-monetized and monetized — regulators will be making a stab in the dark.”

Governance

3. Is the guidance provided on governance clear and actionable to inform how SAs will need to ensure clear and direct lines of accountability and set up governance arrangements to observe the PFMI?

Within the PFMIs, Principle 2, Governance, contains several Key Considerations (“KCs”), with the SA Report identifying KCs 2, 6 and 7 as the relevant ones. Those KCs have requirements that appear to be directed more toward banks or financial holding companies with a highly developed subsidiary structure as opposed to the rather flat organizational models used by stablecoin arrangements and related market participants. They discuss “documented governance arrangements,” “direct lines of responsibility and accountability,” “a clear documented risk management framework” established by the board, which framework “addresses decision making and crises in emergencies,” and “ensures that risk management and internal control functions have sufficient authority, independence, resources, and access to the board.” It also notes that the FMI board should ensure that there are “rules, overall strategy,

²⁴ [12 C.F.R.](#), § 1310, App. A.

²⁵ *Ibid.*, App. A, III a.

and major decisions reflect[ing] appropriately the legitimate interests of... direct and indirect participants and other relevant stakeholders.”

There may be two issues with this model. First, it presumes a corporate governance structure which most SAs neither have nor need. Those who issue SAs do not create the risk. Stablecoins are simply a manner of issuing digital assets in a way that removes volatility from the typical uncertainty of digital token valuation. How stablecoins are used by those who purchase them is not something a stablecoin arrangement can control. Second, for the most part, stablecoins are either held as a hedge/store of value or are used (traded or loaned) in centralized or decentralized finance arrangements which are governed by smart contracts.

Accordingly, the governance principles articulated in KCs 2, 6 and 7, may not be directly applicable because (a) there is little risk associated with holding a stablecoin as a store of value or a hedge, and (b) in other cases, internal control and risk management functions have been built into the code which drives the protocol in which the stablecoins are used. [To perhaps put in another way, risk management frameworks need to be “wrapped around” a particular product so that the product cannot be misused. In the case of DeFi protocols, how the product reacts to a particular type of market movement or other stress, is built in from the beginning. Accordingly, there is less need for board oversight because the product will act as the code tells it to act, and no amount of after-the-fact reporting can change that.]

The governance considerations set forth in the PFMI were adopted well before the advent of stablecoins or decentralized finance. It is no surprise, therefore, that they are intended to provide guidance to a centralized system which is highly dependent upon human judgment and activity. However, in the case of protocols governed by smart contracts, such human activity is removed or significantly diminished. Thus, for principles of governance to be effective and meaningful, they should be directed toward the design and building of the algorithm — something the PFMI do not address.

4. What are the challenges that SAs may face due to the use of distributed and/or automated technology protocols and decentralisation, when seeking to observe Principle 2 on governance, in particular when ensuring the clear allocation of responsibility and accountability?

In addition to the issues noted above arising from the risk management elements which are embedded in the original code for the product, SAs will face difficulty in connection with the fact that distributed ledgers are governed by consensus, with no centralized managers who attempt to drive predetermined results. This problem would be further exacerbated in the case of stablecoin use within a distributed autonomous organization (“DAO”). For example, in a typical centralized financial institution, management may be under significant pressure to meet budgetary or other financial goals, which could influence it to emphasize the sale of certain products with higher revenue potential, regardless of whether they may or may not be the best products for the client. In those cases, and as illustrated in the PFMI, governance processes

are designed to avoid/mitigate that possibility by ensuring that the product performs in a manner consistent with its disclosures. Assurance comes from layers of oversight and reporting built into how the product is marketed and sold. By contrast, a product using stablecoins is more immune to such pressures because it will act in the way that the code — not the managers/salespeople — requires it to act. The unknowns are the market activity and the design of the protocol itself, for example, in the case of algorithmic stablecoins, how supply is governed by the software to maintain price stability against the underlying currency. Hence, robust disclosures can be made to users of such products as to how the stablecoin and the protocol with which it is associated are designed, and how they will react given different market conditions.²⁶

Much also will depend on whether the SAs use open-source software development or are more akin to permissioned, proprietary arrangements. In the cases of open-source development, it would be difficult to impose any governance requirements on the developers. It will be only slightly less difficult for those using the software since it may be modified and reassembled into different configurations. These different cases should be addressed by the Report.

Finally, CPMI and IOSCO should recall that one regulatory size does not fit all. The wide variety of use cases for stablecoins may impact the degree of governance needed. Those holding stablecoins as a safe haven asset or for remittances would seem to need less oversight compared to those SAs which are used for lending, trading, escrow or decentralized applications such as liquidity pools. Thus, the SA Report would benefit from a detailed analysis that differentiates between a variety of governance and oversight models by taking different use cases into account.

Interdependencies

5. Is the guidance on Principle 3 clear and actionable to inform how SAs will need to comprehensively manage risks from other SA functions and entities and their interdependencies?

Although we believe that the definition of an SA is unclear and, further, that SAs do not appear to be FMIs, the Chamber recognizes that SAs can mitigate some of the risks that are articulated in Principle 3.

The guidance should provide additional detail on the types of interdependencies that may arise with respect to SAs. As the SA Report notes, stablecoin issuance, stabilization, and redemption are not FMI functions. The primary interdependencies involving third parties then would appear to relate to facilities that provide the transfer function and, potentially, wallet functions. A stablecoin arrangement likely could not prevent, for example, a given digital asset trading

²⁶ However, there are elements of centralization even in connection with decentralized finance protocols. Digital currencies are typically held at custodians and, in the case of hard forks, those custodians will decide which set of tokens for which fork are valid and which are not. Thus, because the custodians are known entities, this element of centralization may expose stablecoins to forms of governmental oversight.

platform from providing trading/transfer services on that platform. Moreover, making the stablecoin transferable on multiple blockchains should likewise help eliminate single points of failure. Stablecoins should take a similar approach with respect to wallet providers.

The SA Report does not directly address interdependencies with respect to stablecoins and decentralized finance (“DeFi”). Stablecoins often play a key role in DeFi, both as an instrument that is frequently loaned and, where DeFi lending occurs on a collateralized basis, stablecoins may be posted as collateral. While, again, a stablecoin arrangement likely cannot limit the way the stablecoin is used with respect to DeFi, it should be aware of the impact of DeFi on the liquidity of its stablecoin, as well as any other impacts.

Settlement finality

6. Is the guidance on Principle 8 on settlement finality clear and actionable to inform how SAs will need to manage risks arising from a misalignment between technical and legal finality?

The Chamber agrees that clarity as to when settlement of a transfer of a stablecoin is legally final is essential but does not believe that the guidance on Principle 8 is sufficiently clear. While it does not appear that SAs are FMIs, the Chamber recognizes that the settlement finality concepts articulated in Principle 8 of the PFMI could be applied to SAs. Principle 8 requires an FMI to “provide clear and certain final settlement, at a minimum by the end of the value date. Where necessary or preferable, an FMI should provide final settlement intraday or in real time.”²⁷ The guidance in the SA Report states that the FMI must “clearly define the point at which the settlement of a payment, transfer instruction, or other obligation is final, and to complete the settlement process no later than the end of the value date, and preferably earlier in the value date.”²⁸

The SA Report identifies a “misalignment” between technical settlement and legal finality. In particular, the SA Report states that a “fork” could occur after legal settlement of a transaction occurs and is settled from a legal perspective, where the fork causes technical settlement to be reversed.²⁹

The Chamber believes, consistent with the intent of the guidance on Principle 8, that centralized digital asset platforms that facilitate the transfer of stablecoins should define when the transfer is legally final, taking into consideration the way assets transfer on a blockchain. Such platforms likewise should address how a legally final settlement will be handled if technical settlement, i.e., the movement of assets on a blockchain, fails for some reason. The Chamber also agrees

²⁷ [Principles for financial market infrastructures](#), Committee on Payment and Settlement Systems and Technical Committee of the International Organization of Securities Commissions, April 2021, 64.

²⁸ [Consultative report](#): Application of the Principles for Financial Market Infrastructures to stablecoin arrangements, Committee on Payments and Market Infrastructures and Board of the International Organization of Securities Commissions Oct. 2021.16.

²⁹ *Ibid.*

that a centralized platform must be transparent as to “whether and to what extent there could be a misalignment between technical settlement and legal finality.” Once a transfer is legally settled, the Chamber believes that a platform must be responsible for ensuring that the parties to the transfer receive the assets to which they are entitled.

The Chamber does not believe that digital asset trading platforms or other facilities for the transfer of such assets can “clearly define the point at which a transfer on the ledger becomes irrevocable and technical settlement happens.” Such transfers are governed by the blockchain on which they occur, and the Chamber understands that irrevocability and technical settlement occur when the blockchain’s consensus mechanism has validated the block that includes a given transaction.

Money settlements

7. Is the guidance on Principle 9 on money settlements clear and actionable to inform how SAs will need to manage risks associated with the use of a stablecoin as a settlement asset? In particular, is the guidance clear on the considerations which an SA should take into account when choosing a stablecoin as a settlement asset with little or no credit or liquidity risk as an appropriate alternative to central bank money?

The Chamber supports applying the guidance on Principle 9 relating to money settlements using stablecoins. Principle 9 states that, “[a]n FMI should conduct its money settlements in central bank money where practical and available. If central bank money is not used, an FMI should minimise and strictly control the credit and liquidity risk arising from the use of commercial bank money.” In the case of a stablecoin, the parties transferring or trading the stablecoin would seek to minimize and strictly control the credit and liquidity risk arising from using a stablecoin, rather than commercial bank money.

The Chamber believes that stablecoins should be unleveraged and should hold reserves in cash or cash equivalents, such as short-term government bills. This approach minimizes credit risk associated with stablecoins used for money settlement. While the Chamber is open to the idea that an SA could hold central bank liabilities as reserves, we note that in most cases, the settlement of stablecoins is equally effective whether in central bank money or commercial bank money. Of course, commercial bank money is considerably more plentiful and, except in the case of extreme market distress, will be at least as available as central bank money. Moreover, central bank money is often available only through accounts at central banks, which, of course, could limit availability and supply. Further, as an element of managing monetary policy, the central bank could decide to limit how much of its funds it wishes to make available for stablecoin settlement purposes, thus constricting liquidity and stifling innovation.

While the Chambers supports the guidance on Principle 9, it believes that would be appropriate for national regulators to consider additional safeguards specifically related to stablecoins only when stablecoin payments systems are adopted at significant scale nationally and

internationally. In our view, no stablecoin payments system has reached this threshold, and stablecoin activities broadly are likewise not at significant scale to merit a separate, compulsory regulatory regime. We note that the overall value of stablecoin payments systems is quite small relative to areas of the financial sector that pose higher risk. For example, the market capitalization of all stablecoins globally is approximately \$155 billion,³⁰ while the total asset value of U.S. money market funds – which are distinctly different from stablecoins and have been flagged for financial stability concerns³¹ – is over \$5 trillion.³²

The Chamber emphasizes that its response relates to stablecoins that are fully collateralized. Other types of stablecoins may require a different approach managing the risks related to money settlements.

We appreciate the opportunity to share our views on stablecoins given our members' experiences in this dynamic, growing industry.

Very truly yours,



Perianne Boring
Founder and President



Teana Baker-Taylor
Chief Policy Officer

³⁰ [Stablecoins by Market Capitalization](#), CoinGecko, accessed December 2, 2021.

³¹ [Policy Proposals to Enhance Money Market Fund Resilience](#), Consultation Report, Financial Stability Board, June 2021.

³² [Division of Investment Management, Money Market Fund Statistics](#), Securities and Exchange Commission, September 2021.