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Dear Secretariats:

The Canadian Bankers Association (CBA)¹ appreciates the opportunity to comment on the Committee on Payments and Market Infrastructures (CPMI) and the International Organization of Securities Commissions (IOSCO) consultation report *Application of the Principles for Financial Market Infrastructures to stablecoin arrangements* (the Consultation Report).

The CBA has a strong interest in the efficiency, safety, and soundness of the payments and broader financial system. In the case of stablecoin arrangements (SAs), the CBA is supportive of greater clarity on the roles and responsibilities of relevant authorities who may oversee SAs to ensure the integrity of the financial services ecosystem while also enabling innovation. To this end, we commend IOSCO and CPMI's work in identifying considerations for determining the systemic importance of a SA for the purposes of applying the *Principles for Financial Market Infrastructures* (PFMI). Rather than respond to the individual consultation questions, we have chosen to focus our comments on the potential risks that systemically important SAs may pose to the financial system and express our continued support for a holistic, risk-based, principles-based approach to the regulation and oversight of SAs.² In light of the evolving nature of stablecoin arrangements, we believe a flexible, agile approach to requirements is essential.

Promoting Confidence and Stability in Financial Markets – Application of the PFMI

At present, stablecoins are primarily used to facilitate transactions on cryptocurrency platforms acting as a “bridge” between cryptocurrencies and fiat currencies.³ Beyond facilitating cryptocurrency transactions, some stablecoin issuers are exploring the potential to leverage stablecoins as a faster and more efficient mechanism to make mainstream payments. While usage of stablecoins for payments has not achieved substantial scale, we acknowledge this space is evolving quickly and the stablecoin market has grown

¹ The Canadian Bankers Association (CBA) is the voice of more than 60 domestic and foreign banks that help drive Canada's economic growth and prosperity. The CBA advocates for public policies that contribute to a sound, thriving banking system to ensure Canadians can succeed in their financial goals. www.cba.ca.

² The CBA expressed similar views in our response to the Financial Stability Board on their consultation *Addressing the regulatory, supervisory and oversight raised by “global stablecoin” arrangements*. The CBA's response can be found here: <https://cba.ca/cba-submission-to-fsb-consultation-on-global-stablecoin-arrangements>.

³ Kharif, O; Faux, Z and Bloomberg (2021, October 8th). *Everything to know about stablecoins, the cryptocurrency in the government's crosshairs*. FORTUNE. <https://fortune.com/2021/10/08/stablecoins-tether-cryptocurrency-everything-to-know/>

substantially in recent years.⁴ For this reason, it is important to begin the groundwork now of clarifying how supervisory and oversight authorities should assess SAs and potentially intervene prior to, or at the time of, becoming systemically important.

In the context of a payment system, it is important that SAs performing systemically important payment system functions should adhere to the PFMI. We believe it is essential to have appropriate oversight to minimize disruptions that could adversely affect economic activity by impairing the ability to make payments, or by undermining confidence in the overall payments system. In our view, there are a number of risks associated with SAs, particularly as they relate to the broader financial system, and we believe the application of the PFMI could help to address some of those vulnerabilities. For example, in alignment with principle 2 of the PFMI, we agree that SAs should have appropriate governance arrangements in place and an ownership structure and operation that allows for clear and direct lines of responsibility and accountability. Transparency in this regard will help promote safety and confidence in systemically important SAs and provide greater clarity around the nature of stabilization mechanisms of stablecoins and how they operate.

We also support the need for comprehensive management of risks as outlined in principle 3 of the PFMI, including ongoing review of the “material risks that the FMI function bears from and poses to other SA functions and entities”. Similarly, there is merit to the concern raised in relation to principle 9 of the Consultation Report where it notes that stablecoins may be vulnerable to confidence effects or “run risk” which could lead to “fire sales” of reserve assets. The Consultation Report notes that “these confidence effects can have systemic implications if they spread to non-retail participants (eg financial institutions) that hold the stablecoins or to financial assets in which the stablecoin’s reserve assets are invested.” Managing these risks is not only important for a SA to meet the expectations set out in the PFMI, but it is also critical to avoid potential negative impacts to the stability of the financial system.

Flexible, risk-based and principles-based approach

A principles-based approach strikes a balance between the goals of effective oversight and fostering innovation. As the Consultation Report notes, SAs may present some novel features as compared with other financial market infrastructures (FMIs). SAs may perform functions other than a transfer function and some stablecoins may pose greater risks than others. In addition, the technology underpinning the infrastructure of SAs continues to develop and could impact how a SA observes certain principles. A recent speech by the Head of Secretariat, CMPI noted the “development of stablecoins as a payments system continues apace” and later acknowledged the importance of staying nimble and prepared for outcomes that “may not seem likely now, but could have significant financial stability and macroeconomic

⁴ According to Mckinsey, nearly \$3 trillion in stablecoins were transacted in the first half of 2021. Source: <https://www.mckinsey.com/industries/financial-services/our-insights/cbdc-and-stablecoins-early-coexistence-on-an-uncertain-road>

implications”.⁵ Given the evolving nature of SAs and the technology underpinning these arrangements, focusing on the outcomes to meet the PFMI will avoid overly prescriptive requirements that may quickly become obsolete and this principles-based approach will allow for sufficient flexibility for market participants to grow and evolve.

Support for a coordinated and collaborative approach

Collaboration and coordination among central banks, market regulators and other authorities to promote the safety and efficiency of systemically important SAs will, by extension, help preserve stability in the financial market. Ongoing dialogue among these authorities will be necessary in order to address the challenges and gaps identified with implementing an appropriate level of regulation and oversight of SAs. In a recent progress report on the implementation of the FSB’s high-level recommendations, the FSB suggested further work at an international level “may help to support the effective implementation of the FSB high-level recommendations at the jurisdictional level.”⁶ Similarly, the Consultation Report acknowledges more work needs to be done to consider whether guidance is sufficient to provide clarity to multicurrency SAs. To this end, we strongly support standard-setting bodies and supervisory authorities continuing to collaborate to develop a holistic risk-based approach to the oversight and regulation of SAs. We also support continuing engagement with the broader financial sector. Collaboration and coordination both domestically and internationally will help to address potential gaps and avoid regulatory fragmentation and arbitrage across jurisdictions.⁷

In examining the wider landscape of payments and cryptocurrencies, we also wish to emphasize that CPMI-IOSCO’s work on systemically important SAs should be considered part of a broader conversation related to matters such as the prudential treatment of cryptoassets⁸, cross-border payments, and central bank digital currencies.

Conclusion

The need for action is clear and we commend the CPMI and IOSCO for taking this important step in considering how existing principles apply to SAs. It is critical to establish an effective regulatory framework for SAs that balances the objective of the safety and soundness of the system with the objective of fostering innovation and growth through a flexible framework that will allow participants to

⁵ Rice, T, Head of Secretariat, Committee on Payments and Market Infrastructures. (2021, October 26th). [speech]. *Central bank digital currencies as superheroes?* (bis.org)Central bank digital currencies as superheroes? (bis.org)

⁶ Financial Stability Board. *Regulation, Supervision and Oversight of “Global Stablecoin” Arrangements: Progress Report on the implementation of the FSB High-Level Recommendations.* (2021, October 7th). <https://www.fsb.org/wp-content/uploads/P071021.pdf>

⁷ Ibid.

⁸ This includes the work by the BCBS on the prudential treatment of cryptoassets. The CBA’s response to the BCBS’ consultations can be found here: <https://cba.ca/cba-submission-to-basel-committee-on-banking-supervision-on-designing-a-prudential-treatment-for-crypto-assets>, and here: <https://cba.ca/cba-submission-to-basel-on-prudential-treatment-of-cryptoasset-exposures>

adapt quickly to changes in the market. This will lead to a more robust and competitive system to give this market an opportunity to grow and mature in a responsible manner while promoting financial stability. We appreciate having the opportunity to contribute to this consultation process and look forward to continuing to engage on this issue with the CPMI and IOSCO.