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Basel Committee on Banking Supervision
Bank for International Settlements
CH-4002 Basel
Switzerland

Second consultation on the prudential treatment of cryptoasset exposures

The IBFed[1] is pleased to respond to the Basel Committee on Banking Supervision second consultation on the prudential regulation of cryptoasset exposures.

The Basel Committee on Banking Supervision's consultation plays an important part in finalising this regime, so IBFed is pleased to respond to it. Our response makes some mainly high-level observations that we believe should be considered as this is done. We also note that helpful changes have been made to the Committee's proposals since its first consultation.

A coherent, internationally harmonised regime is important

We support the GHOS's intention, as announced in its recent press release, to design a robust and prudent regulatory framework for banks' exposures to cryptoassets, at the same time promoting innovation and preserving financial stability. We similarly believe that crypto assets and the application of their underlying technology, alongside more conventional forms of fiat money, can support the international economy. But these benefits will only be fully realised if an overarching, technologically neutral, prudential regulatory framework exists. It should provide clarity and certainty to guide individual jurisdictions as they put in place regimes for the prudential treatment of cryptoassets in order that there is an international level playing field where regulated banks' cryptoasset exposures are treated the same, from a prudential perspective, as those of less regulated firms.

[1] The International Banking Federation (IBFed) represents the combined views of its national banking associations. Collectively it represents more than 18,000 banks, including more than two thirds of the largest 1,000 banks in the world. IBFed member banks play a crucial role in supporting and promoting economic growth by extending consumer and business credit of over 40 trillion Euros globally, and by collectively employing over 6 million people. The IBFed represents every major financial centre and its members' activities take place globally. With its worldwide reach the IBFed is a key representative of the global banking industry, engaging with international standard setters and global supervisory bodies on subjects with an international dimension or with an important impact on its members.

Supporting cryptoasset visibility

If banks' have unreasonably differential treatment of their exposures to cryptoassets they will be discouraged from engaging with the cryptoasset market. Not only will this disadvantage them compared to their less-regulated competitors, but also cryptoasset activities may become more 'invisible' to the authorities if it is concentrated in a less/unregulated environment.

Furthermore, should consumers continue to engage with cryptoassets and providers outside of mainstream financial services, regulators may be less able to protect consumers and the financial system from the risks they pose. Given a general lack of appreciation of the scope of regulatory boundaries this would inevitably lead to reputational damage for firms and their regulators.

Same activity, same risk, same regulatory treatment

We strongly support the premise that cryptoassets with the same risk characteristics as a traditional asset should be subject to equivalent prudential regulation. The fact that an asset class is 'new' should not mean that it should be treated differently - prudential regulation should be technologically agnostic. We note below examples of where, in our view, the same activity, same risk, same regulatory treatment approach has not been adhered to.

- Where the reference asset of a Group 1b cryptoasset are stablecoins issued by banks and backed by unencumbered HQLA assets, qualifying firms should be able to look through and treat the stablecoin as HQLA eligible, as they can with Group 1a cryptoassets
- The 2.5% infrastructure risk add-on over-states the risk that Group 1 cryptoassets create. Specific technology related risks they can be captured under existing Pillar 2 operational risk approaches based on the robustness of a firm's business continuity planning
- Netting between markets or different exchanges should be allowed, so that firms can hedge exposures optimally and minimise concentration risk.
- There is no rationale offered for the consultation's proposed Group 2 exposure limit of 1% of Tier 1 capital. Moreover, the proposed limit applies to all Group 2 cryptoassets on gross exposures. It would be helpful to understand the reasoning behind its low level and lack of netting.
- We welcome the possibility raised in the Consultation Paper that Group 1b stablecoins issued by prudentially regulated firms need not meet the basis risk and redemption test requirements.

Clarification of the approach to custody assets

Custody services only generate operational risk, they should not be covered by the exposure limit, mirroring the treatment of traditional assets held in custody.

Of course, IBFed would be delighted to discuss our observations in these brief responses to its Consultation on the prudential regulation of cryptoassets, should the Committee wish.

Kind regards,

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