

Committee on Payments
and Market Infrastructures



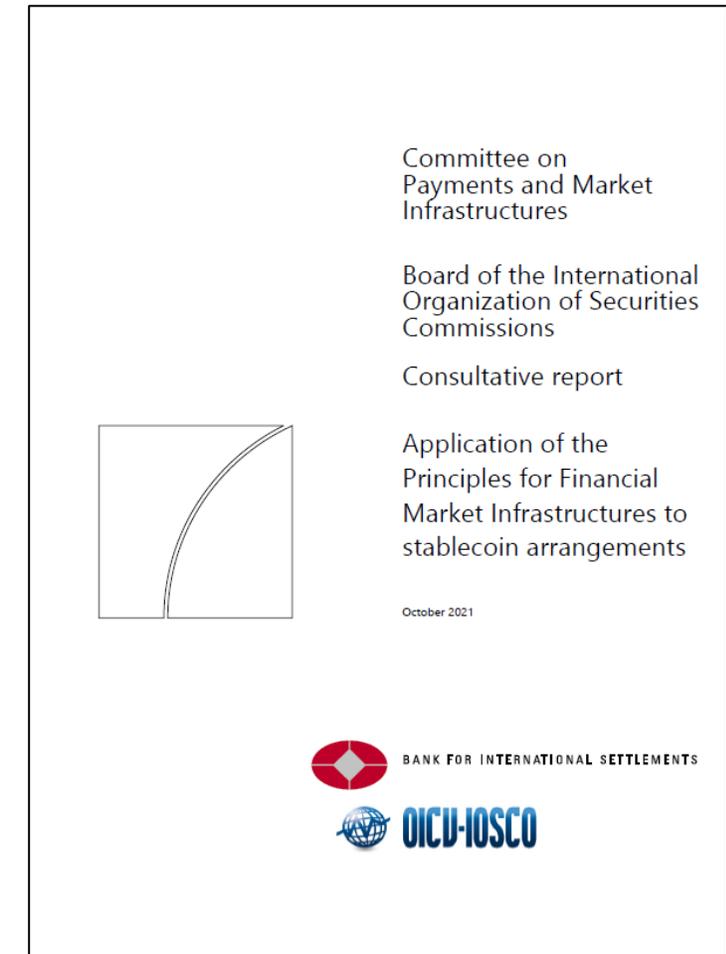
Application of the PFMI to stablecoin arrangements

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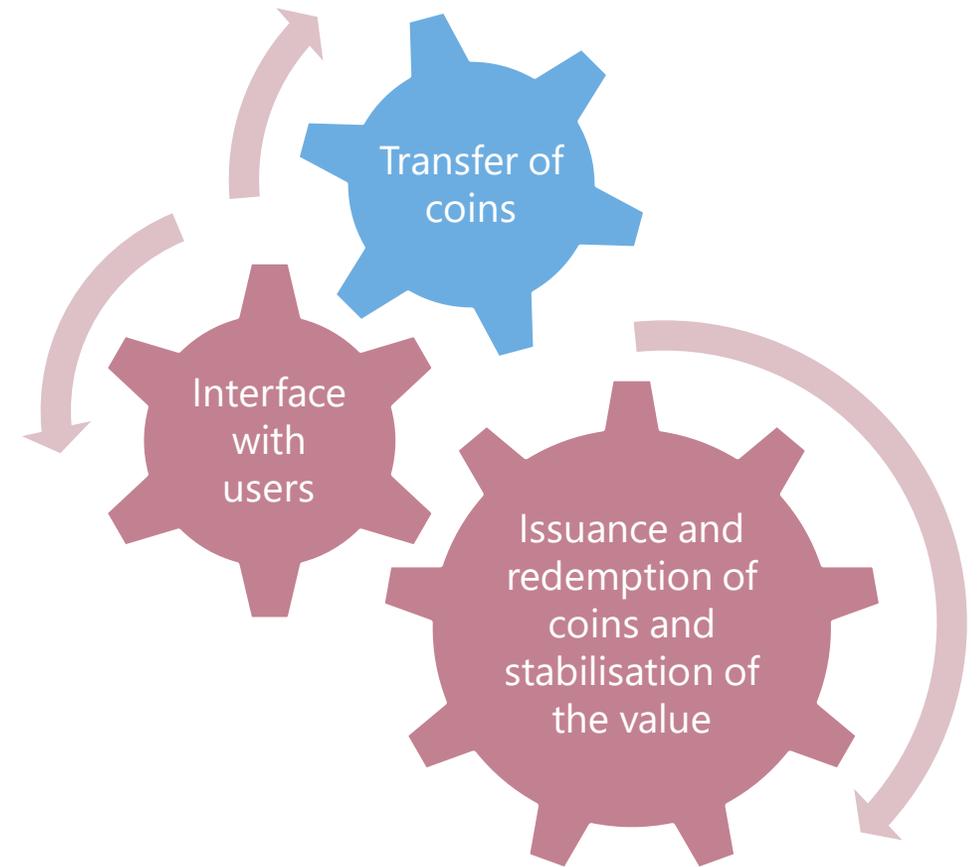
CPMI-IOSCO consultative report

- April 2012 CPMI-IOSCO Principles for Financial Market Infrastructures (PFMI)
- Review of applicability of PFMI for stablecoin arrangements (SAs)
- No new principles or standards
- Rather additional guidance on the application of the PFMI to SAs
- Support regulators and overseers as well as developers of SAs

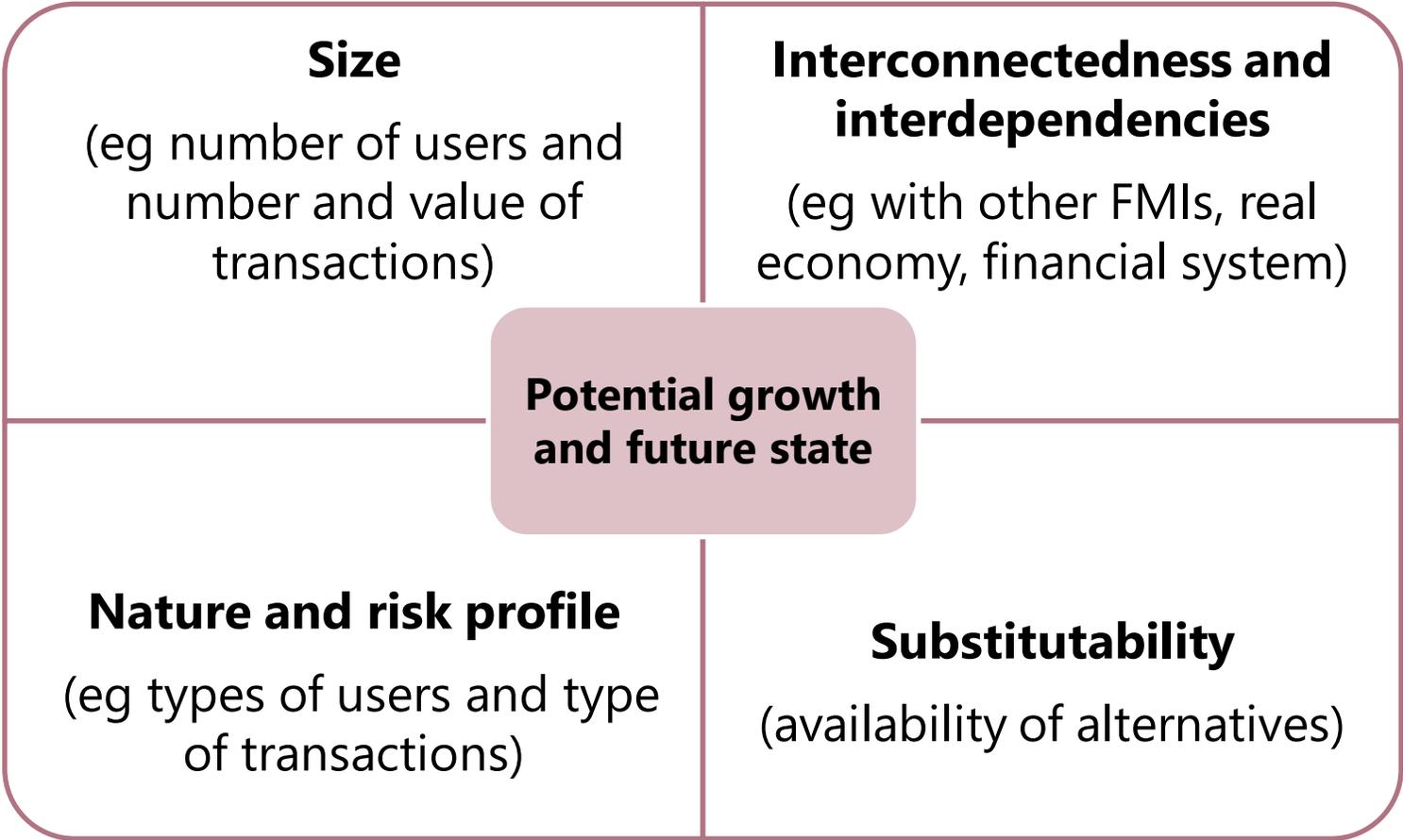


Do the PFMI apply to a stablecoin arrangement?

- Yes – if:
 - it performs the transfer function, and
 - it is determined to be systemically important.
- In that case it would be expected to observe all relevant principles of the PFMI.
- “Same business, same risks or risk profile, same rules”



When are SAs systemically important?



Notable and novel features of stablecoin arrangements

Use of stablecoins as a settlement asset

Performance of other non-FMI functions

Use of distributed and/or automated technology protocols

Decentralisation of operations and/or governance

Proposed new guidance in light of these novel features

- To provide clarity on how certain aspects of the PFMI could be observed by SAs
- No intention to create additional standards
- New guidance on 4 principles of the PFMI:
 - Principle 2 – Governance
 - Principle 3 – Comprehensive risk management
 - Principle 8 – Settlement finality
 - Principle 9 – Money settlements
- A systemically important SA is expected to observe all the relevant principles

Next steps and potential future work

- Next steps

- Consultation closed 1 December
- Final Stage 1 report envisaged in H1 2022

- Potential topics for further work (Stage 2 work)

- *Based on consultation input and members' priorities*
- "Responsibilities" of relevant authorities
- Different types of stablecoins (eg multicurrency & asset-backed)
- Interactions with non-FMI functions/ non-FMI nonbank entities

December 2021						
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Wednesday, Dec 1st 2021

Questions?

Principle 2: Governance

- **Principle:** A systemically important SA should have appropriate governance arrangements.
- **Challenges:** governance performed by software, interaction with governance of non-FMI functions.
- **The guidance:**
 - The SA's governance structure should allow for clear and direct lines of responsibility and accountability.
 - The SA's governance structure should meet Principle 2 holistically (irrespective of the governance arrangements of other interdependent functions).

Principle 3: Framework for comprehensive risk management

- **Challenges:** interaction with non-FMI functions and involvement of non-FMI entities.
- **Guidance:**
 - The SA should regularly review the risks that the transfer function bears from and poses to its other functions and service providers.
 - The SA should develop appropriate risk-management frameworks and tools to address these risks as part of its comprehensive risk management.

Principle 8: Settlement finality

- **Challenges:** potential of “probabilistic settlement”, ie misalignment between legal and technical finality.
- **Guidance:**
 - The SA should provide clear and final settlement, regardless of the operational settlement method used:
 - clearly define the point at which a transfer on the ledger becomes irrevocable (technical settlement);
 - make it transparent to what extent there could be a misalignment;
 - ensure proper mechanisms for reconciling the misalignment, and
 - have measures to address the potential losses created in case of reversal of transactions.

Principle 9: Money settlements (1)

- **Principle:** the settlement asset needs to carry little or no credit or liquidity risk.
- **Challenges:** stablecoins are neither central bank nor commercial bank money.
- **Guidance (1):**
 - The SA should provide its holders with:
 - a direct legal claim on the issuer,
 - and/or a claim on, title to or interest in the underlying reserve assets for timely convertibility at par into other liquid assets (such as central bank money),
 - and a clear and robust process for fulfilling holders' claims in both normal and stressed times.

Principle 9: Money settlements (2)

- Guidance (2):
 - The SA should minimize and strictly control the credit and liquidity risks of the stablecoin such that the stablecoin is an acceptable alternative to the use of central bank money.

The clarity and enforceability of the legal rights and protections

The nature and sufficiency of the reserve assets

The clarity, robustness and timeliness of conversion process

The creditworthiness, capitalisation, access to liquidity and operational reliability of issuers, account providers and custodians of reserve assets

The sufficiency of regulatory frameworks for issuers, managers and custodians of reserve assets

The existence of risk controls