



March 28, 2025

Via Electronic Submission

Financial Stability Board
c/o Secretariat
Bank for International Settlements
CH-4002 Basel
Switzerland

Re: *Thematic Peer Review on the FSB Global Regulatory Framework for Crypto-asset Activities*

Dear Members of the Financial Stability Board:

The Global Financial Markets Association (“**GFMA**”)¹ welcomes the opportunity to respond to the Financial Stability Board’s (“**FSB**”) Thematic Peer Review of the “FSB Global Regulatory Framework for Crypto-asset Activities.”² We appreciate the FSB’s leadership in coordinating the development of international standards in this area. As stablecoins and other digital-assets continue to evolve in scope and usage, it is critical that policymakers take a consistent, risk-based, and technology-neutral approach that is focused on the function of a product or commercial offering and is capable of being flexibly applied as technology evolves, thereby creating a “paved road” for innovation that will allow regulated entities to enter, or expand their engagement in, the digital-asset space, bringing with them established and well-understood practices for risk management, client asset segregation, and compliance oversight. In addition, participation by existing regulated financial institutions is necessary for deepening institutional markets, which would increase risk-controlled digital-asset use cases and augment the availability of safe and sound intermediation.

Differing or conflicting regulatory frameworks across jurisdictions could unduly restrict the potential benefits of these innovations, including improved efficiency, expanded financial inclusion, and diversification of payment methods, while at the same time creating regulatory arbitrage opportunities that threaten systemic resilience.

To mitigate the likelihood of these potential outcomes, GFMA emphasizes the importance of prioritizing clarity, consistency, and flexibility in the regulation of digital-asset activities. This involves using a suitable taxonomy, implementing a “same activity, same risk, same regulatory outcome”

¹ The GFMA represents the common interests of the world’s leading financial and capital market participants, to provide a collective voice on matters that support global capital markets. We advocate on policies to address risks that have no borders, regional market developments that impact global capital markets, and policies that promote efficient cross-border capital flows, benefiting broader global economic growth. The GFMA brings together three of the world’s leading financial trade associations to address the increasingly important global regulatory agenda and to promote coordinated advocacy efforts. The Association for Financial Markets in Europe (“AFME”) in London, Brussels and Frankfurt, the Asia Securities Industry & Financial Markets Association (“ASIFMA”) in Hong Kong and Singapore, and the Securities Industry and Financial Markets Association (“SIFMA”) in New York and Washington are, respectively, the European, Asian and North American members of GFMA.

² <https://www.fsb.org/uploads/P210225.pdf>.

framework, and encouraging practices that allow regulators worldwide to establish local regulations that are not isolated but interoperable with those in other regions, while properly addressing jurisdictional and cross-border challenges in what is an inherently global industry. To this end, we support certain aspects of FSB’s recommendations set out in its *High-level Recommendations for the Regulation, Supervision and Oversight of Global Stablecoin Arrangements* published on July 17, 2023,³ while also suggesting that other aspects of these prior recommendations be reconsidered as they may no longer align with the current realities of the global stablecoin market.

Below, we address each of the four issues identified in the Thematic Peer Review, incorporating the perspectives of our members. Our aim is to supply FSB with constructive insights to help shape effective, balanced regulations and supervisory frameworks.

The Impact of Jurisdictional Regulatory Frameworks on Decisions of Crypto-asset Issuers and Service Providers (Including Stablecoin Arrangements) to Locate and Structure Their Business

Cross-Border Coordination and the Risk of Fragmentation

Like securities and other traditional assets that can be traded and transferred electronically, digital-asset activities, particularly those involving stablecoins, often transcend national boundaries. The digital nature of these products permits services to be offered to, and utilized by, users around the world in real time. This borderless aspect of digital-asset technology means that market participants face a complex matrix of potentially inconsistent, overlapping, and sometimes contradictory regulatory requirements.

- **Regulatory Arbitrage between Jurisdictions.** When one jurisdiction imposes relatively stricter prudential, market integrity, and consumer protection requirements than others, a “race to the bottom” may ensue. Issuers or service providers seeking to minimize regulatory burdens might relocate to or structure operations in the more permissive jurisdiction. This can undermine systemic protections and erode consumer safeguards at a global level.⁴
- **Duplicative Compliance Costs.** Financial institutions that are subject to multiple, often misaligned, regulatory regimes must develop duplicative systems and processes, increasing compliance costs and dampening opportunities for innovation.
- **Uncertain Legal and Regulatory Treatment.** Where regulatory requirements have not kept pace with technological developments, or remain ambiguous, it can be difficult for digital-asset issuers and service providers to gauge what activities are permitted and how best to structure their businesses. This uncertainty increases risk and hinders long-term planning.

These factors, taken together, can hinder capital allocation and encourage some market participants to migrate business formation to less regulated jurisdictions, prioritizing short-term benefits over a more long-term and sustainable approach.

³ Fin. Stability Bd., *High-level Recommendations for the Regulation, Supervision and Oversight of Global Stablecoin Arrangements*, <https://www.fsb.org/uploads/P170723-3.pdf> (collectively, the “**Recommendations**” and each, a “**Recommendation**”).

⁴ Consistency is also critical with respect to the regulation of providers of digital wallet services, which can facilitate onshore access to offshore stablecoins. Without appropriate regulation, onshore participants could circumvent local rules by using unregulated wallet providers to interact with offshore stablecoins or related products.

*Importance of Harmonization and Technology-Neutral Regulation.*⁵

We respectfully submit that FSB Standing Committees⁶, in close cooperation with national regulators and other Global Standard Setters (IOSCO, CPMI and BCBS), should encourage a more consistent global approach, consistent with Recommendation 3.⁷ Currently, certain jurisdictions may treat digital-assets as securities, others as commodities, still others as payment instruments, and, in some cases, an asset class might be regulated differently depending on its function—often without the level of clarity needed for market participants to engage in activity. This lack of uniformity creates legal risks that can stifle innovation, cause friction and fragmentation in the market, and ultimately expose consumers to potential harm. Taking appropriate action to limit any such fragmentation (and potential market fragility) would align with the very worthwhile objectives previously set forth by FSB.⁸

A “same activity, same risk, same regulatory outcome” framework would reduce both uncertainty and fragmentation. Consistent with past comments submitted to FSB by GFMA,⁹ where established financial regulations (such as anti-money laundering controls or capital requirements) already address the underlying risks, we recommend that policymakers broaden those existing regulations to encompass digital-asset activities, instead of developing and imposing needlessly specific frameworks simply because a digital ledger or token is employed. Such risk-based, technology-neutral regulation will help ensure a level playing field across the jurisdictions in which our members are active. This contrasts with the current regulatory capital treatment for “cryptoassets” under the Basel Committee for Bank Supervision framework,¹⁰ which continues to stifle activity through an overly conservative treatment of on-balance sheet digital-assets rather than a data-driven risk-based approach,¹¹ particularly for tokenized real world assets and stablecoins that do not meet Group 1 criteria, as well as the Basel Committee’s disclosure framework for banks’ digital-

⁵ See, Recommendation 2, at 4-5 (July 17, 2023) (“To promote a technology neutral approach that enables comprehensive oversight of GSC’s functions and activities and mitigates regulatory arbitrage, authorities should focus on the functions performed by the GSC arrangement and risks posed and apply the appropriate regulatory framework, consistent with international standards, in the same manner as they would apply it to entities and persons performing the same functions or activities, and posing the same risks (‘same activity, same risk, same regulation’”).

⁶ <https://www.fsb.org/about/organisation-and-governance/>

⁷ *Id.*, Recommendation 3, 5-6 (“Authorities should cooperate and coordinate with each other, both domestically and internationally, to foster efficient and effective communication, information sharing and consultation in order to support each other in fulfilling their respective mandates and to ensure comprehensive regulation, supervision, and oversight of a GSC arrangement across borders and sectors, and to encourage consistency of regulatory and supervisory outcomes”).

⁸ <https://www.fsb.org/uploads/P040619-2.pdf>.

⁹ <https://www.gfma.org/wp-content/uploads/2022/12/gfma-response-to-fsb-crypto-asset-consult-15-december-2022.pdf>.

¹⁰ <https://www.bis.org/bcbs/publ/d579.pdf>.

¹¹ <https://www.gfma.org/wp-content/uploads/2024/03/joint-associations-cryptoassets-working-group-bcbs-cryptoasset-standard-amendments.pdf>.

asset exposures,¹² which runs contrary to Pillar 3 disclosure principles by creating burdensome, digital-asset-specific requirements.¹³

Further to this, global efforts to harmonize regulatory frameworks and reduce fragmentation should focus on legal frameworks that recognize equivalent regulatory regimes across jurisdictions, enabling stablecoin issuers to maintain centralized, well-managed reserves that meet globally accepted prudential standards.

Lastly, relating to the ineligibility of digital-assets underpinned by public, permissionless, blockchain networks for inclusion as a Group 1 cryptoassets under BCBS standards, we are observing policy shifts in the EU and the US towards embracing public permissionless blockchains.¹⁴ Consistent therewith, we urge global standard setters to redefine how they develop regulatory policies to support a technology-neutral approach going forward. FSB SRC could launch an Advisory Group to actively engage with digital asset market participants and continuously evaluate in a technology-neutral manner whether the use of public blockchains are suitable for particular asset classes or use cases.¹⁵

Enabling Adoption in Regulated Markets and Promoting Commercialization

Overly prescriptive or inconsistent rules across jurisdictions can push digital-asset development to less regulated spaces and participants, diminishing oversight and exacerbating systemic risk. By contrast, as identified in the FSB Report on Market Fragmentation,¹⁶ internationally coordinated regulatory approaches—particularly those allowing for substituted compliance, comparability determinations, or similar mechanisms—will help preserve the benefits of cross-border transactions while maintaining robust protections. This coordination could take the following approach:

- **Mechanisms to Mitigate Market Fragmentation.** Jurisdictions should design regulations that defer to each other’s regimes where regulatory outcomes align.
- **Proactive Engagement.** FSB SRC should build upon existing specialized “innovation hubs” or “regulatory sandboxes” that have allowed safe experimentation with new technologies while subjecting participants to robust oversight to help foster education between private and public sector financial market participants.
- **Global Principles with Local Flexibility.** High-level global principles, promulgated by bodies such as FSB and the International Organization of Securities Commissions, should

¹² <https://www.bis.org/bcbs/publ/d580.pdf>.

¹³ <https://www.gfma.org/wp-content/uploads/2024/01/final-joint-trades-response-bcbs-consultation-on-disclosure-of-cryptoasset-exposures-31.01.2024.pdf>.

¹⁴ See European Commission: Directorate-General for Financial Stability, Financial Services and Capital Markets Union and Schär, F., *Enhancing financial services with permissionless blockchains*, Publications Office of the European Union, 2024, <https://data.europa.eu/doi/10.2874/8306042>; Office of the Federal Register, National Archives and Records Administration, Executive Order 14178—Strengthening American Leadership in Digital Financial Technology, govinfo, (January 23, 2025), <https://www.govinfo.gov/app/details/DCPD-202500169>.

¹⁵ See FSB, *supra* note 6, Recommendation 1, at 3-4 (“Authorities’ readiness to regulate and supervise global stablecoin arrangements”).

¹⁶ <https://www.fsb.org/2019/06/fsb-report-on-market-fragmentation-2/>.

guide local implementation in a manner consistent with each jurisdiction’s market maturity and risk profile.¹⁷

Overall, consistency in cross-border regulatory frameworks would help ensure that financial institutions operating across multiple jurisdictions can continue to offer innovative, secure digital-asset services in a manner that preserves systemic stability, transparency, and consumer protection.

Experiences and Challenges Faced by Crypto-asset Market Participants in Meeting the Relevant Regulatory and Supervisory Requirements

Fragmentation and Divergent Regulatory Approaches

One of the most pressing challenges is regulatory fragmentation. As a fundamental matter, digital-asset offerings and the associated consumer base do not map neatly onto conventional jurisdictional lines. Service providers must contend with a patchwork of definitions, licensing obligations, and prudential or conduct requirements across a range of activities including custody, insurance, cybersecurity, AML/KYC, suitability, audit requirements, reporting requirements, and recordkeeping. Inconsistent national regulatory approaches result in:

- **Compliance Inefficiencies.** Firms with global operations often undertake duplicative reporting, licensing, and disclosure efforts.
- **Variations in Consumer Protection.** Different regimes may set different baselines for disclosure or safeguard requirements. Retail consumers, often unaware of such disparities, could be inadvertently exposed to higher risks. This is important for safeguarding retail clients. However, to truly facilitate the development of deep and liquid institutional markets, regulatory frameworks should enable access by sophisticated and professional clients, and should consider differentiating between activity permissible for retail clients and activity permissible for institutional clients, as is often the case in existing regulated markets.
- **Under- or Over-Regulation.** Some regulators may attempt to fit digital-asset activities into outdated or ill-fitting frameworks, leading to either over-regulation that stifles innovation or under-regulation that fails to address key risks.
- **Challenges Aligning Technology-Specific Regulatory Approaches with Rapidly-Evolving Technology.** As GFMA noted in a previous response to FSB,¹⁸ the implementation of technology agnostic and agile regulation is critical. An adaptable regulatory framework able to accommodate new technology as it emerges will enable regulated participants operating across a range of jurisdictions to continue to enhance their commercial activities, incorporating emerging technology subject to established risk-mitigation principles and practices.

¹⁷ The view that existing regulatory frameworks should create a baseline for stablecoin regulations is supported by CPMI and IOSCO. See <https://www.bis.org/cpmi/publ/d206.pdf>.

¹⁸ <https://www.gfma.org/wp-content/uploads/2020/07/gfma-response-fsb-cp-global-stablecoins.pdf>.

Lack of a Globally Consistent Taxonomy

The FSB SRC could lead the development of a consistent classification approach and taxonomy to help foster regulatory convergence (e.g., Cyber Lexicon 2023) regionally and globally.¹⁹ Digital-assets can represent a broad range of functionalities, from payment instruments to store-of-value tokens to utility tokens that grant access to specific platforms. As GFMA has noted previously,²⁰ the lack of a globally consistent taxonomy for digital-assets poses a significant challenge for market participants interested in embracing this technology in a compliant manner. Unfortunately, there remains neither uniform agreement nor a standardized vocabulary regarding their classification, which leads to:

- **Difficulty in Determining Applicable Rules.** A stablecoin used primarily for payments might be deemed a security in one jurisdiction, a type of e-money in another, an unregulated instrument in a third, and a new category of asset in yet another jurisdiction. Such discrepancies can result in disparate capital requirements, complicate legal analyses, heighten compliance risks, and undermine the development of global markets.
- **Unclear Reporting Obligations.** Entities that treat the same asset differently may require different forms of risk disclosure, liquidity buffers, or licensing. These inconsistencies can cause confusion for both institutions and consumers.
- **Same Activity, Same Risk.** Regulations should focus on the risks that activities generate, rather than on the technology that is used to conduct the activity or the terminology used to describe the activity.

This would be consistent with the FSB objectives for the Cyber Lexicon, which aims at a minimum to:

1. “enable a **common understanding** of relevant cyber security and cyber resilience terminology across sectors;
2. **enhance work to assess and monitor financial stability risks** of cyber risk scenarios;
3. **facilitate information-sharing** as appropriate; and
4. **aid work by the FSB and/or standards-setting bodies to provide guidance related to** cyber security and cyber resilience, including identifying effective practices.”

Recognizing the pace of change by industry and regulators, the FSB could deliver by year-end 2025 a set of well-defined global lexicon for digital-assets—articulating core classification approaches and definitions for digital assets (e.g., “payment token,” “security token,” “utility token,” “stablecoin”). This would create a clear framework to be leveraged by individual jurisdictions and ideally built upon by them in a manner that, consistent with such a framework, would contribute to a harmonized global model for regulated digital-asset activities. Such standards should also make clear that while certain distinctions are

¹⁹ <https://www.fsb.org/uploads/P130423-3.pdf> (FSB objectives for the Cyber Lexicon) (“Cross-sector common understanding of relevant cyber security and cyber resilience terminology[;] assess and monitor financial stability risks of cyber risk scenarios[;] provide guidance related to cyber security and cyber resilience, including identifying effective practices”).

²⁰ <https://www.gfma.org/wp-content/uploads/2022/12/gfma-response-to-fsb-crypto-asset-consult-15-december-2022.pdf>.

crucial (e.g., distinguishing a stablecoin with redemption rights from a purely speculative digital-asset), technology alone does not alter the fundamental economic function of a financial product. For convenience, we have included the CFTC Global Markets Advisory Council for Digital Asset Markets Subcommittee (“CFTC GMAC DAM”)’s Digital Assets Classification Approach and Taxonomy as Appendix A hereto. The CFTC GMAC DAM is a uniquely designed diversified group of market participants in the digital asset ecosystem that comes together to help foster understanding as markets evolve.

Consistent with FSB’s principles that regulations should follow a “Same Activity, Same Risk, Same Regulatory Outcomes” and technology-neutral approach, the adoption of blockchain- or DLT-based systems that serve as internal recordkeeping, accounting, reporting, and other back-office functions for regulated financial institutions (collectively, “**books and records**”) and the issuance, recording, and transfers of book-entry tokens on such systems should not be subject to additional regulation, as all books and records systems of a financial institution, and any new replacement systems, are already subject to existing regulatory requirements²¹ and supervisory frameworks²² that apply standards and oversight to address risks associated with these systems.

Further, regulations should not misclassify or misconstrue internal books and records entries on such systems as “tokens” or “stablecoins” subject to additional regulation simply because of the nature of the technology used. The electronic book entries present in such a blockchain- or DLT-based books-and-records system serve the identical functional purpose as electronic book entries that are used to record assets in traditional electronic books and records systems.

Operational and Regulatory Considerations

In order to meet the operational and regulatory requirements of digital-asset activities, GFMA supports a principles-based flexible approach designed to enable, where appropriate, the ability for entities that are engaged in these activities to rely on existing well-established practices for risk-management, including when using third-party service providers, as may occur in the context of new technological adoption and for which well-considered principles of operational resilience have been established.²³ Similar points have been clearly articulated by the Bank for International Settlement’s Committee on Payments and Market Infrastructures (“**CPMI**”).²⁴

²¹ See, e.g., 12 CFR § 12, 17 CFR § 240.17a-3, 17 CFR § 240.17a-4, FINRA Rule 3110(b)(4), FINRA Rule Series 4510, and N.Y. Banking Law § 128.

²² See, e.g., Office of the Comptroller of the Currency, OCC Bulletin 2021-30, *FFIEC Information Technology Examination Handbook: New Architecture, Infrastructure, and Operations Booklet* (June 30, 2021), <https://www.occ.gov/news-issuances/bulletins/2021/bulletin-2021-30.html>; Office of the Comptroller of the Currency, *Large Bank Supervision, Comptroller’s Handbook* (Mar. 2022), <https://www.occ.gov/publications-and-resources/publications/comptrollers-handbook/large-bank-supervision.html>; Fin. Indus. Regul. Auth., *Books and Records Requirements Checklist for Broker-Dealers* (Feb. 6, 2025), <https://www.finra.org/compliance-tools/books-and-records-requirements-checklist>.

²³ <https://www.bis.org/bcbs/publ/d577.pdf>.

²⁴ <https://www.bis.org/cpmi/publ/d220.pdf> (“Regulatory frameworks should be designed based on the principle of ‘same business, same risk or risk profile, same regulatory outcome’, [*sic*] to ensure that providers of stablecoins posing risks similar to other financial activities are subject to the same regulatory outcomes, while taking into account the characteristics of SAs. Regulatory frameworks should, to the extent possible, be consistent across jurisdictions to promote usability and limit risks and regulatory arbitrage, in line with the work of international SSBs and the FSB. Furthermore, as regulation may lag behind innovation, authorities may also adopt a case-by-

Alongside the definitional challenges noted above, a present lack of consistency across jurisdictions results in market participants grappling with uncertainties tied to custody, reporting requirements, and other technology-specific constraints:

- **Custody Rules.** Traditional custodial or safekeeping obligations are often recorded in centralized systems (e.g., central securities depositories systems). Digital-assets rely on distributed ledger technology and related regulatory frameworks and therefore require guidance on how “possession,” “transfer,” “segregation of assets” and “wallet” should be recognized legally. Conversely, it is of paramount importance that security tokens qualifying as traditional financial instruments continue to be treated as such in custody; these instruments should be recognized as traditional financial instruments throughout the security lifecycle, and not as digital assets and subject to differentiated rules.
- **Regulatory Reporting for Digital Assets.** Firms that integrate digital assets into standard offerings may find existing prudential reporting requirements ill-suited to capturing the nature of on-chain transactions, wallet structures, or yield-bearing staking mechanisms.

Further to this, from an operational and compliance perspective, areas of particular note include (i) custody requirements, especially to the extent that regulated financial institutions face more stringent regulatory requirements than otherwise unregulated firms carrying out the same activity; (ii) incompatible regulatory reporting requirements for existing regulated businesses seeking to integrate digital assets into the services they offer;²⁵ and (iii) industry standards having not yet been amended for digital assets.²⁶

The Need for a Principles-Based, Flexible Approach

Regulation should focus primarily on the economic function and underlying risks, rather than the technological form or the terminology used to describe the activity. By applying existing rules in a technology-neutral manner, jurisdictions can reduce complexity and promote a level playing field. At the same time, regulators must remain cognizant of technology’s unique features (e.g., immutability of blockchain transactions, decentralization of recordkeeping, or related custody considerations) and tailor any additional requirements to address those genuinely new concerns.

A principles-based approach offers needed flexibility in a rapidly evolving market. As technology advances, so do the methods that malicious actors can use to exploit vulnerabilities. Likewise, legitimate market participants will explore innovative ways to deliver services efficiently and safely. A flexible regulatory stance—guided by fundamental principles such as transparency, investor protection, market

case approach to address the inherent risks of individual SAs, including those that are [properly designed and regulated]).

²⁵ For example, trade reporting obligations under the EU’s MiFID2, and the regulations adopted by the U.S.’s Commodities Futures Trading Commission may result in challenges resulting from (i) inconsistent product categorization under which a digital asset may be viewed as a “commodity” derivative in one jurisdiction, but viewed as a different asset/product category in another jurisdiction. Because dealers have an obligation to report in both jurisdictions, they may fail to comply as their systems would not have an ability to classify a transaction under multiple product classifications.

²⁶ For example, the ISDA Standard Initial Margin Model (“SIMM”) does not currently have a clear framework for digital asset transactions.

integrity, capital adequacy, and prudent risk management—will best serve long-term stability as digital-assets continue to grow.

How Financial Stability Vulnerabilities of Crypto-asset Activities, Including Stablecoins, Differ Across Jurisdictions and How These Vulnerabilities Evolve as Frameworks Are Implemented

Role of Regulated Financial Institutions

As noted above, an increased presence of regulated entities in the digital-asset space, will bring established and robust risk management practices and compliance oversight. This can help mitigate vulnerabilities. At present, it is vital that these institutions receive clear guidance to avoid unnecessary constraints or duplicative capital requirements that hinder their ability to compete. Regulation should encourage the integration of digital-assets within the established financial ecosystem while ensuring that robust prudential and conduct standards apply consistently across financial institutions or entities that offer financial services.

Differing Scales of Adoption and Market Maturity

While digital-assets enjoy broad-based notoriety, actual rates of global adoption can differ widely.²⁷ In some jurisdictions, digital-assets and stablecoins are rapidly becoming integral to retail payment systems or remittances;²⁸ in others, digital-asset usage remains speculative or minimal.²⁹ As a result, potential financial stability vulnerabilities vary:

- **Systemic Relevance.** In jurisdictions where stablecoin usage is widespread for day-to-day transactions, disruptions could affect mainstream commerce, making any sudden de-pegging event or liquidity shortfall a potential systemic risk.
- **Market Fragmentation and Liquidity Pockets.** If use cases are limited or localized, the market may be prone to abrupt liquidity flows, exacerbating volatility. Liquidity might concentrate in specific regions with favorable regulations, but then flee rapidly in times of stress.
- **Integration with Traditional Financial Institutions.** The risk profile of digital-assets also depends on whether, how, and to what degree banks, broker-dealers, and payment service providers have integrated digital-assets into their core businesses. Established financial institutions often bring more robust governance and risk management frameworks, mitigating certain vulnerabilities but potentially creating new forms of interconnectedness.

Recognizing these potential financial stability concerns, it is also well-understood that DLT can bring significant efficiencies to markets, streamlining operational and compliance requirements. As noted by BIS, one of the objectives of Project Agorá is to determine how smart contracts might help mitigate “[c]hallenges for cross-border payments includ[ing] different legal, regulatory and technical requirements, ... [such as] financial integrity controls (e.g. [sic] customer verification and anti-money laundering) ... [that

²⁷ <https://www.chainalysis.com/blog/2024-global-crypto-adoption-index/>.

²⁸ <https://www.chainalysis.com/blog/2024-latin-america-crypto-adoption/>.

²⁹ *Supra* note 9.

are] are often repeated several times for the same transaction, depending on the number of intermediaries involved.”³⁰

Emerging Regulatory Frameworks and Potential Risk Mitigation

As regulators introduce or update legal regimes for digital-assets, certain measures may effectively reduce vulnerabilities:

- **Tailored Disclosure Standards.**³¹ Requirements for transparent disclosures regarding reserve backing of stablecoins, redemption rights, and operational risks can curb misinformation relating to stablecoins and help users make informed decisions. In turn, this transparency reduces the likelihood of “runs” on stablecoins triggered by rumor or lack of clarity.
- **Market Surveillance Tools.** Traditional risk and market surveillance techniques (such as those used in equities or derivatives trading) are increasingly being applied to digital-asset markets. Over time, widespread adoption of such surveillance is expected to mitigate manipulation and fraud.
- **Comprehensive AML/KYC Programs.**³² Strong anti-money laundering and know-your-customer requirements can help deter illicit activity, which not only aligns with public policy goals but also improves market reputation and reduces the likelihood of sudden regulatory clampdowns.

Whether There Are Specific Market Practices and/or Trends in Certain Geographies and/or Segments That May Pose a Threat to Financial Stability

Potential for Concentration of Liquidity and Systemic Spillovers

As digital-asset markets mature, certain trends bear monitoring:

- **Stablecoin Reserve Mandates and Management.**³³ We note that in some jurisdictions, stablecoin issuers face local reserve mandates or requirements to maintain jurisdiction-

³⁰ <https://www.bis.org/about/bisih/topics/fmis/agora.htm>.

³¹ FSB, *supra* note 6, Recommendation 8, at 9 (“Authorities should require that GSC issuers and, where applicable, other participants in the GSC arrangements provide all users and relevant stakeholders with comprehensive and transparent information to understand the functioning of the GSC arrangement, including with respect to the governance framework, any conflicts of interest and their management, redemption rights, stabilisation mechanism, operations, risk management framework and financial condition”).

³² *Id.*, Recommendation 5, at 7-8 (“Authorities should require that GSC arrangements have effective risk management frameworks in place that comprehensively address all material risks associated with their functions and activities, especially with regard to operational resilience, cyber security safeguards and AML/CFT measures, as well as ‘fit and proper’ requirements, if applicable, and consistent with jurisdictions’ laws and regulations”).

³³ *Id.*, Recommendation 9, at 9-10 (“Authorities should require that GSC arrangements provide a robust legal claim to all users against the issuer and/or underlying reserve assets and guarantee timely redemption. For GSCs referenced to a single fiat currency, redemption should be at par into fiat. To maintain a stable value at all times and mitigate the risks of runs, authorities should require GSC arrangements to have an effective stabilisation

specific reserves. Such measures, if widespread, can fragment a stablecoin’s global fungibility by effectively creating local variants of what is intended to be a single, borderless payment and settlement instrument. Beyond introducing operational inefficiencies and liquidity risks (particularly during times of market stress), these mandates can diminish the technological and stabilization advantages that stablecoins are designed to deliver, ultimately deterring cross-border adoption and undermining financial inclusion. In addition, in some jurisdictions, regulatory standards for stablecoin reserve management remain underdeveloped. If reserves are not held in high-quality liquid assets—or if redemption rights are ambiguous—stress events could undermine confidence, potentially spilling over into traditional markets if stablecoin issuers are large or systemically interconnected.

- **Concentration of Trading Platforms.** A small group of centralized exchanges may handle the bulk of global stablecoin or digital-asset volumes. If these platforms face operational, cybersecurity, or solvency risks, the systemic impact could be amplified.
- **Decentralized Finance (“DeFi”) Protocols.**³⁴ The rapid emergence of decentralized, automated platforms that replicate functions such as lending, trading, and derivatives can provide certain benefits for users but also can pose product-specific risk considerations. These platforms operate without regard to jurisdictional boundaries, adding to the challenge of developing effective regulation in the digital-asset space. The absence of central intermediaries with accountability, combined with potential vulnerabilities in smart contract code, can undermine consumer protection and create contagion channels. However, as we have previously observed,³⁵ these risks can be mitigated by a regulatory approach to DeFi that (i) is technology-neutral and flexible enough to be applied to DeFi’s unique characteristics, (ii) defines participants and activities clearly and (iii) considers the difficulty in applying centralized regulatory frameworks to decentralized systems and (iv) above all, embodies and gives effect to cardinal principle of “same activity, same risk, same regulatory outcome.”

Regional “Hot Spots” and Regulatory Arbitrage

Some jurisdictions are aggressively positioning themselves as “crypto hubs” by minimizing the regulatory burden. These locations can attract issuers and platforms seeking rapid growth with minimal oversight. While fostering innovation is laudable, certain practices may enable excessive leverage, insufficient liquidity buffers, or opaque cross-entity exposures, all of which increase systemic fragility. Furthermore, the presence of significant liquidity in lightly regulated jurisdictions can undermine efforts by other jurisdictions to impose more rigorous standards.

mechanism, clear redemption rights and meet prudential requirements”); see also Recommendation 7, 8-9 (“Authorities should require that GSC arrangements have in place appropriate planning to support a recovery, resolution or orderly wind down under the applicable legal (or insolvency) frameworks, including continuity of any critical functions and activities within the GSC arrangement and prevent spillovers to the financial system”).

³⁴ *Id.*, Recommendation 4, at 6-7 (“Fully permissionless ledgers or similar mechanisms could pose particular challenges to the accountability and governance, and authorities should ensure that appropriate regulatory, supervisory and oversight requirements be effectively applied to such arrangements”).

³⁵ <https://www.gfma.org/wp-content/uploads/2023/10/gfma-and-gbbc-joint-comment-letter-iosco-defi-consultation.pdf>.

Recommendations to Address Emerging Threats

- **Targeted Supervisory Cooperation.**³⁶ Regulators should coordinate closely, especially when large digital-asset platforms operate transnationally. Memoranda of understanding can facilitate data-sharing and joint inspections.
- **Flexibility in Regulatory Approaches.** In areas such as DeFi and the deployment of algorithmic stablecoins, risk profiles are often not fully understood and can evolve rapidly. Regulators might consider developing “early-warning” systems, providing avenues for developers or operators of “front-end” platforms to report key metrics (e.g., liquidity coverage, smart contract auditing procedures, usage demographics).
- **Risk Proportionality.**³⁷ Policymakers should consider whether certain tokenized assets (e.g., a stablecoin used solely for small-scale payments) pose fewer systemic risks than large-scale stablecoins integrated into capital markets. Tailoring regulatory requirements to actual risk profiles can avoid stifling useful financial innovations.
- **Properly Identifying and Classifying Responsible Parties.**³⁸ Where regulated entities interact with market participants that are subject to obligations and controls directly relating to their own product offering (such as a stablecoin issuer responsible for certain reserve audit requirements), the regulated entity should be able to reasonably rely on compliance statements and reports from said issuer or its accounting firm without a further regulatory obligation being imposed on the regulated entity that would be duplicative of the obligations already in place for the market participant.

Conclusion

GFMA reiterates its appreciation for the FSB’s leadership in coordinating a global regulatory framework for digital-asset activities. Our members are committed to fostering responsible innovation that safeguards consumers and protects financial stability. To that end, GFMA respectfully highlights the following points:

1. **Harmonized Regulatory Approaches.**³⁹ Cross-border consistency, supported by frameworks that emphasize “same activity, same risk, same regulatory outcome,” is critical to curbing fragmentation, reducing friction, lowering compliance costs, and preserving a level playing field.

³⁶ See FSB, *supra* note 6, Recommendation 6, at 8-9 (“Authorities should require that GSC arrangements have in place robust frameworks, including systems and processes for the collecting, storing, safeguarding and timely and accurate reporting of data. Authorities should have access to the data as necessary and appropriate to fulfil their regulatory, supervisory and oversight mandates”).

³⁷ *Id.*, Recommendation 2, at 4-5.

³⁸ *Id.*, Recommendation 4, at 6-7.

³⁹ *Id.*, Recommendation 3, at 5-6.

2. **Principles-Based and Technology-Neutral Rules.**⁴⁰ Regulators should look to existing financial regulations wherever possible and apply them in a technology-neutral manner. Overly prescriptive or uncoordinated new rules may inadvertently encourage regulatory arbitrage.
3. **Clear, Globally Consistent Taxonomies.** The lack of consensus on definitions and classifications of digital-assets contributes to unnecessary legal uncertainty. Agreeing core definitional standards would facilitate effective regulation and market stability.
4. **Balanced Integration of Regulated Institutions.**⁴¹ Encouraging the entrance of large, established financial institutions into the digital-asset space can enhance market governance and risk management. At the same time, these institutions need guidance that does not impose duplicative or overly restrictive obligations simply because new technology is involved.
5. **Monitoring Emerging Risks.**⁴² Authorities must keep a close watch on areas such as DeFi, algorithmic stablecoins, and cross-platform exposures, where rapid technological advancement outpaces current regulatory practices. Proactive data-sharing and supervisory coordination can help mitigate emerging threats.

We believe these steps will help ensure that the digital-asset and stablecoin markets evolve in a safe, transparent, and efficient manner, harnessing the benefits of innovation while minimizing risks to financial stability.

GFMA and its members remain at the FSB's disposal for any further collaboration. We welcome the opportunity to discuss these matters in more detail, including concrete proposals to improve cross-border coordination, definitions, and reporting obligations. Should you have any questions or wish to arrange further discussions, please do not hesitate to contact us.

Thank you for considering our views.

Sincerely,



Allison Parent
Executive Director
GFMA

⁴⁰ *Id.*, Recommendation 2, at 4-5.

⁴¹ *Id.*, Recommendation 2, at 4-5.

⁴² *Id.*, Recommendation 4, at 6-7.



Appendix A

Approved by the GMAC on March 6, 2024

RECOMMENDATIONS TO THE COMMODITY FUTURES TRADING COMMISSION GLOBAL MARKETS ADVISORY COMMITTEE BY THE DIGITAL ASSET MARKETS SUBCOMMITTEE 6 March 2024 DIGITAL ASSETS CLASSIFICATION APPROACH AND TAXONOMY

Approach for the Classification and Understanding of Digital Assets

A clear, consensus-driven approach to classifying assets and the functions they serve underpins robust markets and effective regulation. The evolving digital asset ecosystem has led many to develop proprietary taxonomies to classify digital assets and their related technology. In recognition of this progress, the Commodity Futures Trading Commission’s Global Markets Advisory Council for Digital Asset Markets (“**CFTC GMAC DAM**”) Subcommittee (the “**Subcommittee**”) has engaged digital asset stakeholders across the broader digital asset ecosystem to build a common approach for the classification and understanding of Digital Assets (“**Approach**”).

This Approach aims to set out consistent language for participants in the digital asset ecosystem to promote innovation, identify and address risk considerations, and enable effective regulatory understanding. With this objective in mind, the Approach builds upon the considerable classification efforts of global prudential standard setters and regional authorities, including the Bank for International Settlements (“**BIS**”), the Financial Stability Board and others.

The Subcommittee recommends this Approach be considered an initial basis for a consensus-driven, functional taxonomy. However, as the digital asset ecosystem continues to evolve, so too will the terminology used to classify it. The Subcommittee will reassess any future developments to provide further recommendations to this Approach, based on the guidance of its members. The Subcommittee seeks to support effective rules and regulations for Digital Assets, and recommends continued collaboration between industry, standard-setting bodies, and the regulatory community.

This Subcommittee highlights that this taxonomy is intended to be used as an aid to help draft future legislation, regulations, policies, procedures, and other situations where a common approach to understanding Digital Assets is needed. However, legislative and rule-making efforts for the creation of a regulatory framework regarding Digital Assets are at different levels of maturity across regions and jurisdictions. As such, the Subcommittee also notes that the Approach is drafted in a jurisdictionally agnostic manner, and does not attempt to clarify defined terms in any specific existing published legislative or regulatory text.

Approach to Classifying and Understanding Digital Assets

Definition | Digital Asset: a controllable electronic record,¹ where one or more parties can exclusively exercise control through transfer of this record **and** where the controllable electronic record itself is uniquely identifiable.^{2,3,4,5,6,7} Excluded from the definition of Digital Asset are those controllable electronic records that exist in and function solely as part of a financial institution’s books and records.

Broadly, Digital Assets may serve a variety of economic functions such as a store of value, medium of exchange or payment, a means for investment or trading, or a utility to access other goods, governance, or other services. Within those functions, when those assets have the characteristics of regulated instruments that do not qualify as Digital Assets, a specific regulatory framework may already apply, and the Subcommittee believes that digitization does not, as a legal or practical matter, alter the functioning of the product or service, with the result that it is unnecessary to look beyond the existing classification for the regulated instrument.

To the extent that the use of technology impacts the operational risk profile, the relevant systems and control requirements that apply to those activities should be adjusted by each institution to monitor, measure, and mitigate risks. For example, there are different types of networks on which Digital Assets may exist.⁸ The Subcommittee recognizes the importance to not classify digital assets by reference to the type of database or network type on which they are issued/recorded. Doing so is inconsistent with how

¹ As defined by UCC 12-102(a)(1).

² For an appropriate legal definition of control, we refer readers to Principle 6 of the UNIDROIT Principles on Digital Assets and Private Law or the Uniform Commercial Code (UCC) Article 12 – which are broadly aligned and define control by reference to digital asset, protocol or system conferring on the a person: (the exclusive ability to prevent others from obtaining substantially all of the benefit from the digital asset; (ii) the ability to obtain substantially all of the benefit from the digital asset; and (iii) the exclusive ability to transfer the aforementioned abilities to another person. Specifically, UCC Article 12 defines a Controllable Electronic Record (CER). In this context, control is defined as the holder of a CER having the power to “avail oneself of substantially all the benefit of the record,” “exclusively prevent others from doing so,” and “to be able to transfer control of the record to another party” while being able to “identify oneself as holding those powers;” International Standards Organization, ISO/TC 307, 2016.

³ The Subcommittee highlights that efforts to define Digital Asset to date have often focused on the underlying technology and/or technical attributes of said technology. For this Approach, the Subcommittee has aimed to consider a technologically-agnostic approach, to ensure the forward applicability of the definition.

⁴ Miller, *Tokenizing Financial Assets – A Legal Approach*, 2023.

⁵ BIS, *A Blueprint for the future monetary system*, June 2023.

⁶ These properties may also be known as the “core” and “service” layer of an asset; BIS, *The Tokenization Continuum*, April 2023.

⁷ This definition does not intend to include all existing electronic records, such as those where existing rules and regulations may apply (*e.g.*, electronic security records). In these instances, they would not meet the standard of control, transfer, unique identifiability, and/or self-referential status outlined in the above definition.

⁸ The Subcommittee notes it has not defined those terms in this Approach because it is beyond the Subcommittee’s scope in exercise and believes including definitions and explanations of varying networks detracts from a simple taxonomy that regulators may use. The Subcommittee will endeavor to create a larger, deeper taxonomy in the future that would include such definitions.

financial instruments (and non-financial instruments) today are classified and could have unintended consequences for the application of market regulations. Further analysis of the infrastructure is outside the scope of this document at this current time and will be considered in further work by the **Subcommittee**.

Given the nature of Digital Assets, regulators and standard-setting bodies should consider key features beyond economic function to classify these assets and determine what regulatory framework, if any, is adequate. This is similar to how frameworks, such as those that are used for classifying a security or financial instrument, are applied today.

The features of a Digital Asset include, but are not limited to, how the asset: (1) is issued; (2) holds value, (3) confers rights, (4) has fungibility, (5) can be redeemed, and (6) is recorded in books and records. The Subcommittee has endeavoured to define these features below. Digital Assets in this classification have at least one or more of the features captured in the categories, but it should be noted that there may be features developed in the future that have not yet been contemplated at this time. Similarly, not all Digital Assets classified here, have all these features. This is therefore intended as a starting point designed to support regulators and policymakers to take a use case driven approach to evaluate which types of regulations should apply to which type of assets. As these assets evolve and new ones are created, this classification will need to be evolved.

For this classification approach, the Subcommittee has identified a defining set of features pertaining to controllable electronic records:

1. Issuer:

- a. Definition:** the entity that issues a Digital Asset or for whom a Digital Asset is being issued by a service provider; the entity upon which the person controlling the Digital Asset may have legal claim, for the value of the asset (which necessarily varies by asset type); some Digital Assets may not have an issuing entity (e.g., a bitcoin)
- b. Example:** a Central Bank is the “issuer” of a **central bank digital currency (“CBDC”)**.⁹

2. Mechanism Underpinning Asset Value:¹⁰

- a. Pegged:**
 - i. Definition (Pegged):** a Digital Asset attempts to maintain a peg if its market price is referenced to the notional value or amount (as may be applicable) of a different asset, basket of assets, index or any other variable on a consistent basis; the market price may reflect the value of a claim on a particular backing asset or entitlement to a fixed amount of value; the value of “pegged” assets may be enabled through “backing.”¹¹

⁹ The Subcommittee notes that specific CBDC arrangements may vary across jurisdictions and may not explicitly conform to the digital asset definition set out here.

¹⁰ “Peg” and “Collateralization” are concepts that have been examined in further detail by BIS and definitions here adapt and expand on existing taxonomic efforts; BIS, CPMI, IOSCO, Application of the Principles for Financial Market Infrastructures to Stablecoin Arrangements, July 2022; BIS, Will the Real Stablecoin Please Stand Up, Nov 2023.

¹¹ Note – the Subcommittee highlights that the term “pegged” implies a consistent and locked reference of notional

1. **Definition (Backing):** an asset or basket of multiple assets that purport to guarantee or fund redemptions of the Digital Asset (note that the assets backing a Digital Asset may consist of various asset classes that could differ from the reference asset of the pegged Digital Asset; for example, the Digital Asset may reference the US Dollar, but the backing assets may include high quality liquid assets such as US Treasuries as cash equivalents held in reserve).

Example (Pegged & Backed): many **Stablecoins** are examples of pegged and backed Digital Assets (e.g., pegged to the price of one US Dollar and backed either 100% by cash, or by a combination of cash, cash equivalents, and other assets held in a custody account to maintain the value of the peg).¹²

b. Unpegged:

- i. **Definition:** not designed to reference the value of another asset and, therefore, its price is free-floating, determined by market supply and demand for that asset.
- ii. **Example:** many **Cryptoassets**, such as bitcoin or ether, are unpegged.

3. Rights Conferral:

- a. **Definition:** the attribute of a Digital Asset to provide the party (or parties) that control such Digital Asset a legally enforceable claim or rights against the **issuer**. For example, a monetary claim, rights to participate in future revenue distributions, or share in the losses of, or participate in other arrangements by the issuer such as voting, coupon payments, etc.
- b. **Example:** the owner of a **Tokenized Security** is conferred the rights to the recurring cashflows it may pay and or any other applicable rights (e.g., voting rights).

4. Fungibility – Fungible vs. Non-Fungible:

a. Fungible:

- i. **Definition:** a Digital Asset with individual units that are interchangeable on a like-for-like basis.¹³
- ii. **Example:** Ether is fungible with other Ether tokens.

b. Non-Fungible:

value. In practice, the secondary market price of a pegged Digital Asset may fluctuate due to trading activity, but this is not a feature unique to Digital Assets. For example, there are fiat currencies that are “pegged” to the US dollar. However, in practice, the exchange rate between the currencies is subject to fluctuation.

¹² The Subcommittee notes that certain forms of asset-backed securities and/or collective investment schemes may also be considered “backed” based on the specific application of local laws and regulations.

¹³ BIS, The Technology of Decentralized Finance (DeFi), Jan 2023.

- i. **Definition:** a Digital Asset with individual units that are not interchangeable on a like-for-like basis; these Digital Assets could also be described as “unique” or “one of a kind.”¹⁴
- ii. **Example:** Non-Fungible Tokens representing individual pieces of art, with unique artistic features (and where price often varies due to these features), and thus cannot be interchanged with other Non-Fungible Tokens; two **Stablecoins** (as defined herein) from different issuers would **not** be fungible.

5. Redeemability – Redeemable vs. Non-Redeemable:

a. Redeemable:

- i. **Definition:** the ability to relinquish ownership of a Digital Asset in exchange for equivalent value in another asset class, such as money.¹⁵¹⁶
- ii. **Example:** fixed income **Financial Digital Assets** (as defined herein) may be redeemable for their notional value upon maturity; other **Tokenized Securities** (as defined herein) may be redeemable for the underlying traditional security it represents.

b. Non-Redeemable:

- i. **Definition:** a Digital Asset where no issuer exists, or the issuing entity has no obligation to redeem the asset.
- ii. **Example:** Ether is not redeemable for any reference asset.

6. Nature of Record – Digital Twin vs. Digital Native:¹⁷

a. Digital Twin:

- i. **Definition:** an electronic controllable record representing an asset that has been immobilized on another system of record, and reconciled with that original system of record to ensure ownership is reflected precisely.¹⁸

¹⁴ BIS, The Technology of Decentralized Finance (DeFi), Jan 2023.

¹⁵ The feature of redeemability has been further explored in the context of stablecoin Digital Assets; BIS, Will the Real Stablecoin Please Standup, Nov 2023.

¹⁶ Further, operational redemption procedure, the liquidity of the pool of redemption assets, and the speed of redemption execution (including during periods of market stress) are all characteristics of a Digital Asset that must be considered in determining whether it is redeemable.

¹⁷ The Subcommittee notes that these terms are important to the classification of Digital Assets as they provide context as to the various record-keeping approaches that may be used to record ownership.

¹⁸ Note: A Digital Twin Digital Asset can be issued after the asset it represents has been created. The Digital Twin does not need to be created at the same time.

- ii. **Example:** a **Tokenized Alternative Asset** (as defined herein) (such as **Tokenized Real Estate** as defined herein) is a Digital Twin of that alternative asset that has been immobilized on another system of record.

b. Digital Native:

- i. **Definition:** a Digital Asset representing the primary record of value, that is not recorded on another system of record and does not require reconciliation with another system of record.
- ii. **Example:** a bitcoin is a Digital Native because it is the original record of value that does not need to be recorded elsewhere to verify ownership.

Note: There may be tokenized arrangements (e.g., in the case of tokens representing a fractionalized interest in a security) that may not be wholly categorized by one of these two features. In these instances, this attribute may not be relevant.

In addition to the attributes that help set out the nature of a Digital Asset, there are other attributes related to a Digital Asset's **intended use case** or **function** that may also be effective tools to understand when seeking to classify them. The Subcommittee notes that the primary objective of this document is to set out definitions. Any relevant regulatory understanding should also account for and vary based on these characteristics. These include:

- **Types of users/holder types** (e.g., *retail* vs. *wholesale*);
- **intended end user** (e.g., *consumer product* vs. *financial product*); and
- **the entity that serves as the custodian** (e.g., *regulated depository institution*), if any.

Classification of Digital Assets

A. Money or Money-Like Digital Assets

For a Digital Asset to be classified as money or a money-like Digital Asset it must meet one of the following three conditions: reliable store of value, medium of exchange, and unit of account.

Digital Money

1. **Central Bank Digital Currencies (CBDC):** digital tokens representing a claim on a central bank for a fixed amount of central bank money denominated in a single currency; also, a liability of a central bank, with no credit or liquidity risk. It may or may not be programmable.¹⁹²⁰²¹

¹⁹ BIS, Central Bank Digital Currencies: System Design & Interoperability; BIS Technology of Retail Central Bank Digital Currency, Mar 2020; BIS, Central Bank Digital Currencies, Mar 2018.

²⁰ Board of Governors of the Federal Reserve System, CBDC, Apr 2023.

²¹ In some jurisdictions, CBDCs may be classified as legal tender.

- a. **“General Purpose” or “Retail” CBDC:** a CBDC that is specifically designed for use in transactions and holdings by **individuals** and/or small and medium-sized enterprises;
- b. **“Wholesale” CBDC:** a CBDC that is specifically designed for wholesale use in transactions and holdings by regulated financial institutions and could be used in the facilitation of regular financial markets functions (e.g., settlement of securities transactions).

The Subcommittee notes that as specific CBDC arrangements vary by jurisdiction, the attributes of a **Retail CBDC** and **Wholesale CBDC** may also necessarily vary (e.g., fungibility between the two types).

2. **Bank Deposits:**

- a. **Tokenized Deposits:** digital tokens that represent an existing record of a traditional ownership claim for a bank deposit on the token-issuing bank or depository institution, for a fixed amount of commercial bank money denominated in a single currency.²²
- b. **Deposit Tokens:** transferable digital tokens issued by a licensed depository institution which evidence a deposit claim against the token-issuing bank or depository institution, for fixed amount of commercial bank money or fiat cash denominated in a single currency.²³

The Subcommittee notes that this definition should be considered in the context of the applicable legal framework and local regulations of a given jurisdiction. The intent of the definition drafted here is to reflect a global perspective.

- 3. **“Reserve-Backed” Digital Currencies:** a privately issued (e.g., by a financial market infrastructure provider digital token where the value of the issued token is **backed by** central bank reserves).²⁴

Money-Like Digital Assets

- 4. **Stablecoins:** privately-issued, money-like, digital token that aims to maintain a stable value relative to a **peg** specified by a reference asset(s) and designed to minimize value fluctuations relative to these reference assets(s). They are **not** issued by a central bank. They must also be at least **fully backed by** one or more assets specified under the specific regulatory framework, including:^{25,26}

²² For tokenized deposits, the ultimate record of ownership will continue to be maintained elsewhere.

²³ The Subcommittee notes that (a) and (b) should not be considered new forms of money, but are subject to the same standards as traditional deposits.

²⁴ The Subcommittee notes that these tokens may also be referred to as Synthetic CBDCs.

²⁵ BIS, CPMI, IOSCO, Application of the Principles for Financial Market Infrastructures to Stablecoin Arrangements, July 2022; BIS, Will the Real Stablecoin Please Stand Up, Nov 2023

²⁶ The Subcommittee notes that in some arrangements, the specific combination of assets used to back a Digital Asset it may change its nature. For example, certain Digital Assets that are backed by physical gold and other

- a. Cash: to one or a combination of fiat currencies
- b. Securities: low risk, highly liquid securities such as those classified as High-Quality-Liquid Assets (“**HQLA**”) under the BCBS LCR30 framework (e.g., US Treasury Bills).²⁷

The Subcommittee notes that to meet the classification standard of a **Stablecoin**, the **issuer** should provide for the timely redemption of the **Stablecoin**, including during times of market-wide or **issuer**-specific stress (e.g., redemption demands that may exceed the available liquidity for backing assets, or other events that could potentially call into question the solvency of the **issuer**). In practice, the means by which this is achieved may vary.

The Subcommittee also notes that **Stablecoin** issuers use different asset classes to maintain parity with the value of the reference asset. For issuers who hold higher-risk backing assets or no backing assets in the collateral reserve, such as Cryptoassets (as defined in Section D), **the Subcommittee would not classify these as Stablecoins**. This is due to the potential for incremental liquidity risk and volatility that could lead to a loss of confidence in the issuer’s ability to provide for the timely redemption of the **Stablecoin**. Further, this loss of confidence may lead to secondary market effects affecting the parity of the **Stablecoin** to the reference asset, also known as a “depegging” event. The Subcommittee would instead classify such digital assets as **Other Cryptoassets**.

The Subcommittee further notes that some **Stablecoin** issuers use algorithms to automate the processes that manage supply and demand of stablecoins in relation to the value of the underlying backing reserve. This mechanism has been commonly conflated with the “**Cryptoassets**” category described above and as “algorithmic stablecoins,” which may not have **any backing assets** and purport to solely maintain a peg through use of supply and demand mechanics.²⁸

The Subcommittee highlights that in some **Stablecoin** arrangements, issuers may use an algorithm to manage their backing reserve. Such an approach in itself gives rise to the same types of risks as manual reserve management and is not a differentiated characteristic of a **Stablecoin** arrangement. Rather, it is the determination of whether a backing reserve exists and, if so, whether the assets chosen to be held in this backing reserve are of sufficient quality so as to support the liquidity, timely redeemability, and peg maintenance requirements of the **Stablecoin** arrangement.²⁹

Ultimately, the **backing** of a **Stablecoin** must consist of assets of a sufficient quality to effectively mitigate liquidity risk and maintain a stable **peg**. In practice, the exact means of **backing Stablecoins** may vary.

commodities may be classified as digital derivatives in certain jurisdictions.

²⁷ BIS (BCBS), Liquidity Coverage Ratio (High-quality liquid assets), Dec 2019.

²⁸ BIS, CPMI, IOSCO, Application of the Principles for Financial Market Infrastructures to Stablecoin Arrangements, July 2022; BIS, Will the Real Stablecoin Please Stand Up, Nov 2023.

²⁹ The Subcommittee also highlights that certain characteristics such as the maturity profile of any non-cash assets held as backing for a stablecoin, and the auditability of a Stablecoin’s backing, are important factors in mitigating liquidity risk, ensuring timely redeemability, and maintenance of a peg.

B. Financial Digital Assets³⁰

Typical use cases include financial investment, financial return, and access to capital markets.

1. Securities (and other financial instruments):

- a. **Tokenized Security:** a **Digital Twin** token that represents an underlying security or financial instruments issued on a different platform (e.g., a traditional CSD or registrar), where such representation itself satisfies the definition of a security/financial instrument under local law.
- b. **Security Token:** a **Digital Native** token that satisfies the applicable regulatory definition of a security or financial instrument under local law.

2. Derivatives:

- a. **Tokenized Derivative:** a **Digital Twin** token that represents an underlying derivative instrument issued and recorded on a different platform, where such representation itself satisfies the definition of a derivative under local law.
- b. **Derivative Token:** a **Digital Native** token that satisfies the applicable regulatory definition of a derivative instrument under local law.

The Subcommittee highlights that traditional derivative contracts which provide exposure to an underlying Digital Asset (e.g., bitcoin futures) are out of the scope of this document and not considered here, regardless of settlement type (e.g., physically or net in cash).³¹

C. Alternative Digital Assets

Typical use cases include representation of interest in a good or non-financial asset

1. **Tokenized Alternative Assets:** **Digital Twin** tokens representing an interest in, entitlement to, or claim on, an alternative (or non-security) asset (or claim on the issuing entity for the asset, where applicable), where such representation itself satisfies the definition of such interest, entitlement, or claim under local law; these alternative digital assets may include:
 - a. Tokenized Physical Commodities (e.g., wheat, oil, corn);
 - b. tokenized Real Estate; or

³⁰ This category encompasses different regulated instruments from a legal perspective, which may attract different regulatory treatment amongst themselves and across jurisdictions.

³¹ The Subcommittee notes that, in practice, derivatives that provide for physical delivery of a Digital Asset, may be classified differently by applicable regulators, according to local law, in some cases depending on whether the contract is an exchange-traded derivative subject to an established regulatory regime or an over-the-counter derivative.

- c. other Tokenized Assets of Goods (e.g., carbon credits, art, intellectual property rights, and intangible, discrete assets that only exist in digital form on a programmable ledger platform).

If certain activities are performed on a tokenized non-financial asset, **the classification category may change**. For example, in the case of Tokenized Real Estate, fractionalization may convert the Alternative Digital Asset to a Financial Digital Asset.

D. **Cryptosets** (often referred to as **Cryptocurrencies**)³²

Typical use cases include a network-specific medium of exchange, unit of account for transaction fees, speculative investment, and branded store of value.

1. **Platform Cryptoassets: non-redeemable Digital Native** tokens, with **no rights conferred** against the **issuer** (if one exists), that may be exchangeable for specified value, is hard-coded into any underlying platform and must serve one or both of the following functions:
 - a. Cryptographic economic incentive to maintain and secure to network or application infrastructure including preservation of processing throughput (e.g., through payment of “gas fees” or staking); or
 - b. universal medium of exchange of the underlying network infrastructure.

Examples of **Platform Cryptoassets** include bitcoin or ether tokens

2. **Other Cryptoassets: non-redeemable Digital Native** tokens, with **no rights conferred** against the **issuer** (if one exists), that are used as a speculative investment.

Examples of **Other Cryptoassets** include “meme-coins” such as shiba inu coin.

As all **Cryptoassets** are not pegged to the value of a reference asset, do not represent ownership or other legal claim against a company or other type of issuer, nor guaranteed by a regulated financial institution, their value is driven by market dynamics and/or supply and demand mechanics.

E. **Functional Digital Assets**

Typical use cases include governance or access to a specific infrastructure or app, and specific functional utility.

1. **Functional Digital Assets:** digital tokens that **cannot be exchanged for value** issued (where applicable) to provide the owner of the token with a specific utility such as:
 - a. Application-specific governance rights, voting weights, or decision-making authority; and

³² The Subcommittee notes that while Cryptocurrencies is the term used to classify these Digital Asset’s in practice, these Digital Assets typically do not meet the standard required to be considered “currency” and propose an updated classification approach. The Subcommittee also notes that in certain public-sector and private-sector publications, “cryptoasset” and/or “cryptocurrency” has been used as a catchall term for Digital Assets.

- b. record of entitlement right to rewards or revenue from a specific application or community.

As the Digital Asset ecosystem continues to evolve, the Subcommittee recognizes that there may be additional functions or utilities that are not contemplated at this time, and as such expects this classification category to continue to evolve over time.

F. Settlement Controllable Electronic Records

Typical use cases include digital record-keeping, particularly in facilitation of financial transactions.

1. **Settlement Tokens:** digital tokens where such representation itself does not satisfy the definition of a security bank deposit, nor financial instrument under local law and is used solely to transfer or record ownership or perform other middle/back-office financial functions (e.g., collateral transfer, recording of ownership); often exists temporarily, typically for the length of the transaction it facilitates. This may be called the “books-and-records” use case, and a **Settlement Token** would not be considered as Digital Asset as defined herein.

G. Other Digital Assets

The Subcommittee recognizes the potential for future innovation and has retained this bucket for new developments that may arise in the digital assets ecosystem.