

Regulatory News Alert

International standards for financial market infrastructures to apply to stablecoin arrangements

11 October 2021

Context

On 6 October 2021, the Committee on Payments and Market Infrastructures (CPMI) and the International Organization of Securities Commissions (IOSCO) published [preliminary guidance](#) (“the Guidance”) for public consultation. This confirms and clarifies that **Stablecoin Arrangements (SA)** should observe international standards for payment, clearing and settlement systems as set out by the [Principles for Financial Market Infrastructures \(PFMI\)](#).

Distinctive SA features

The SA “**transfer function**” enables the transfer of coins between users. It typically entails the operation of a system, a set of rules for the transfer of coins between participants, and a mechanism for validating transactions. An SA transfer function is comparable to the transfer functions of other types of Financial Market Infrastructure (FMI). As a result, it **is considered an FMI** for the purpose of the PFMI and, if determined by relevant authorities to be systemically important, the SA would be expected to observe all the PFMI’s relevant principles.

SAs may have some notable and novel features compared with existing FMIs, such as:

- The potential use of settlement assets that are **neither central bank money nor commercial bank money** and carry **additional financial risk**;
- The **interdependencies** between multiple SA functions;
- The **degree of decentralization** of operations and/or governance; and
- A potentially large-scale deployment of emerging technologies, such as **distributed ledger technology (DLT)**.

Therefore, the Guidance focuses on the PFMI’s application **regarding these specific features of SAs**, and **should be read in conjunction** with the relevant principles, key considerations and explanatory notes provided in the PFMI.

Considerations for determining an SA's systemic importance

The PFMI apply to systemically important FMIs. Certain types of FMIs—central counterparties, central securities depositories, securities settlement systems and trade repositories—are presumed to be systemically important at least in the jurisdiction where they are located. Whereas there is no such presumption for payment systems and they are evaluated individually.

In this context, the Guidance identifies four overarching considerations (along with more granular underlying factors) to help authorities assess the systemic importance of an SA:

1. **The SA's size:** whether the stablecoin is used as a principal payment or settlement mechanism for the jurisdiction or the market it serves, based on the number of stablecoin users and number and value of transactions and stablecoins in circulation;
2. **The nature and risk profile of the SA's activity:** the type of stablecoin users, e.g., retail customers, financial entities and type or nature of transactions;
3. **The SA's interconnectedness and interdependencies:** whether there are significant connections with the real economy and financial system; and
4. **The substitutability of the SA:** whether there are available alternatives to using the SA as a means of payment or settlement for time-critical services.

How the PFMI applies to SAs

The Guidance provides clear expectations for a systemically important SA. Such arrangements should

- Establish appropriate **governance arrangements** that include a clear ownership structure and direct lines of responsibility, i.e., that the SA is owned and operated by identifiable legal entities that are ultimately controlled by natural persons;
- Develop an appropriate **risk-management framework** to review and address any material risks that the FMI function bears from and poses to other SA functions and entities, such as other FMIs, settlement banks, liquidity providers or service provider;
- Provide **clear and final settlement**, by clearly defining the point where a transfer on the ledger becomes irrevocable and technical settlement happens—and make it transparent whether and to what extent technical settlement and legal finality could misalign, including the measures to address the potential losses that could occur; and

- For **money settlements**, ensure that there is little or no credit or liquidity risk. The SA should consider whether the stablecoin provides its holders with a direct legal claim on the issuer or a title in the underlying reserve assets for timely convertibility at par into other liquid assets, such as claims on a central bank. It should also provide a clear and robust process for fulfilling holders' claims in both normal and stressed times. The Guidance provides a non-exhaustive list of factors SAs should use to determine if the stablecoin is an acceptable alternative to central bank money for the purpose of money settlement.

National application and next steps

Each jurisdiction **retains the right** to determine whether to allow stablecoin activity. If it does so, and if an **SA is systemic** or **is likely to become systemic**, then the PFMI (supplemented by the Guidance) would also apply.

All interested parties should provide their comments on the consultative document **by 1 December 2021**.

How can Deloitte help you?

Deloitte can help you gain awareness of the subject and design a pragmatic strategy to handle the evolution of this new asset class and identify the potential impacts on the issuance, trading and custody value chain. We will support you on various critical dimensions such as business and operating models; regulatory and compliance; technology; and risk management.

The ever-evolving legislative environment means financial institutions must relentlessly seek efficient ways to manage their compliance efforts, carry out internal regulatory projects and mitigate risks. Deloitte's [Regulatory Watch](#) team's extensive know-how can help you anticipate these challenges and turn them into opportunities.

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