Committee on Payments and Market Infrastructures

BANK FOR INTERNATIONAL SETTLEMENTS

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Update from the Chair of the G7 working group on stablecoins[1]

Within many countries, existing payment systems generally provide for accessible, safe and efficient retail payments for consumers. Nevertheless, access to payment services needs to improve in many regions, and cross-border payments ought to be faster and cheaper. New technologies have the potential to address these shortcomings and deliver greater benefits to users.

Originally envisioned as an accessible and borderless way to pay, crypto-assets have generally suffered from severe price volatility and limited capacity to process transactions compared with existing arrangements. Consequently, they function primarily as risky investments or a shadowy means to pay, and have not achieved a scale that could entail a material imprint on the payments and financial system.

The developers of the crypto-assets labelled "stablecoins" seek to reduce volatility by anchoring the "coin" to a reference asset (eg a sovereign currency) or a basket of assets. While issuance and usage of stablecoins to date have been limited, a number of new stablecoin initiatives backed by large technology companies or financial institutions could have the potential for widespread adoption.

A global stablecoin for retail purposes could provide for faster and cheaper remittances, spur competition in payment services and thus lower costs, and support greater financial inclusion. In this regard, stablecoin initiatives highlight the need to step up ongoing public and private efforts to upgrade existing payment systems.

However, being a nascent technology, stablecoins are largely untested in a real-world environment and on the scale required to run a global payment system. Moreover, they give rise to a number of serious risks related to public policy priorities including, in particular, anti-money laundering and countering the financing of terrorism, as well as consumer and data protection, cyber resilience, fair competition and tax compliance.

They could also pose issues related to monetary policy transmission, financial stability and the smooth functioning of and public trust in the global payment system.

As large technology or financial firms could leverage vast existing customer bases to rapidly achieve a global footprint, it is imperative that authorities be vigilant in assessing the risks and implications for the global financial system.

[1] The working group consists of senior officials from the G7 central banks as well as the International Monetary Fund, the Bank for International Settlements and the Financial Stability Board. The Secretariat of the Committee on Payments and Market Infrastructures provides support for the group.

The G7 working group has discussed stablecoin initiatives and identified some key considerations that set a baseline for critical issues to be solved. Naturally, these comprise only a subset of the considerations necessary to address the full range of public policy priorities.

First, stablecoin initiatives must ensure public trust by meeting the highest regulatory standards and be subject to prudent supervision and oversight. This starts with (but is not limited to) all relevant guidance from the Financial Action Task Force, as well as the Principles for Financial Market Infrastructures (PFMI) issued by the Committee on Payments and Market Infrastructures and the International Organization of Securities Commissions. The fundamental concept of "same business, same risks, same rules" applies. Regulatory approaches have to be globally consistent, and any gap or inconsistency should be identified and addressed.

Second, stablecoin initiatives should demonstrate a sound legal basis, in all relevant jurisdictions, to ensure adequate protection and guarantees to all stakeholders and users. At a minimum, issuers of stablecoins should clearly explain the nature of the commitment they are making to the holders of their coins and any risks involved in owning such assets.

Third, the governance and risk management framework should ensure operational and cyber resilience.

Fourth, the management of the assets underlying the arrangement must be safe, prudent, transparent and consistent with the nature of obligations to, or reasonable expectations of, coinholders in order to inter alia ensure broad market integrity and coinholder confidence in good times and in bad times.

Moreover, stablecoins may raise broader issues for the international monetary system, in particular if they become a widespread substitute for cash and deposits in some economies.

Significant work by stablecoin developers and further engagement with the public and authorities will be required before they can expect approval by relevant authorities, as the above considerations can only be adequately addressed by ensuring transparency and making more detailed information available for proper assessment.

The working group stands ready to take forward its work in coordination with G7 finance ministries, relevant standard-setting bodies, the G20 and the Financial Stability Board.

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