REPORT ON REGULATION OF STABECOINS

A brief overview of the stance of G20 countries and prominent international organizations on the regulation of stablecoins

Section I - Overview

Definition and Introduction:

Stablecoins are a class of crypto assets that attempt to offer investors price stability either by being backed by specific assets or using algorithms to adjust their supply based on demand. The first stablecoin was issued in 2014 and since then, they have gained traction, as stablecoins offer the speed and security of a blockchain while getting rid of the volatility that most crypto assets endure.

Stablecoins were primarily used to buy crypto assets on trading platforms that did not offer fiat currency trading pairs. As their adoption grew, stablecoins are now used in several blockchain-based financial services such as lending platforms and can even be used to pay for goods and services. Stablecoins are blockchain-based versions of fiat currencies, which means they are programmable and can interact with blockchain-based applications and smart contracts (which are self-executing agreements written in code).

The value of most stablecoins is pegged to the value of either a specific fiat currency such as the United States dollar or a particular commodity such as gold. Being pegged means that their price is fixed, so one stablecoin tracking the U.S. dollar should be worth one dollar.

The uses of stablecoins within the crypto-asset ecosystem have multiplied in recent years. Initially, stablecoins were mainly used as a relatively safe “parking space” for crypto volatility and as a bridge to trade crypto assets. But with the rise of decentralised finance (DeFi) applications, stablecoins have gained new uses. The largest existing stablecoin, Tether, has already become critical in crypto-asset trading.

Types of Stablecoin:

- Fiat-Collateralized Stablecoins: As the name suggests, they are backed by sovereign currency such as the pound or the US dollar. It means that to issue a certain number of tokens of a given crypto asset, the issuer must offer dollar reserves worth the same amount as collateral. Commodities such as gold can also be used here. The reserves are often maintained by custodians that function independently and are audited for compliance on a regular basis. Crypto assets that are backed by dollar deposits include TrueUSD and Tether (USDT).

- Crypto-Collateralized Stablecoins: The value of crypto-collateralized stablecoins is pegged to that of other crypto assets. Since the underlying asset, in this case, is also a crypto asset, it is not conventionally safe and may also be highly volatile. The term used to refer to such kinds of stablecoins is “over-collateralization.” It means that a relatively large amount of reserved crypto assets may be needed to issue even a small number of tokens.

- Non-Collateralized (Algorithmic) Stablecoins: Non-collateralized stablecoins are those that do not involve the use of any reserve asset. Instead, their stability is derived from a working mechanism, such as that of a central bank. For example, the crypto base coin uses a consensus mechanism to determine whether it should increase or decrease the supply of tokens on a need basis.

Apart from these three main categories, a fourth category which is far less common at this stage is a commodity-collateralized (or asset- collateralized) stablecoin. This relies on reserves of a commodity such as gold, or some other asset. DGX is an example of this.

How Stablecoins Remain Stable:

Stablecoins take advantage of the stability provided by central banks and the government to create reserves in government-backed fiat currencies such as the U.S. dollar. To monetize stablecoin reserves, some of the funds backing stablecoins are allocated to fixed-income securities such as short-term corporate debt and government-backed debt obligations that ensure that the funds remain redeemable and adequately backed.

Stablecoins vs Traditional Crypto Assets:

Attributes	Stablecoins	Traditional Crypto
Volatility	Extremely low	Can be extremely high
Monetary Value	Similar to fiat currencies or assets like precious metals	Determined by the blockchain protocol
Properties	Medium of exchange, unit of account and store of value	Varies. For example, Bitcoin is seen as a store of value, while other crypto assets may be seen as a medium of exchange.
Asset Backing	Backed by assets in reserves or algorithmically	Not backed by any physical commodity or metal
Degree of Authority	Most stablecoins are controlled by a central entity	Most crypto assets aim to be decentralized

Use Cases:

- Digital Markets: Stablecoins are used to trade digital assets and serve as an onramp from fiat currency to digital assets recorded on blockchains.
- Payments: Stablecoins are used to facilitate fast peer-to-peer and cross-border payments. They also hold the potential for new payment innovations, such as programmable money.
- Internal Transfers and Liquidity Management: Institutional stablecoins facilitate transfers of funds within a firm and allow efficient movement of internal cash across subsidiaries to manage liquidity risk and regulatory requirements.
- DeFi: The programmability and composability of stablecoins currently supports decentralized, blockchain-based crypto markets and services, known as decentralized finance or DeFi. Protocols allow for market making, collateralized lending, derivatives, asset management, and other services.

Risks/Disadvantages:

- Risks to financial stability: Stablecoins may pose risks to financial stability through different contagion channels such as unpredictable investor finances and crypto-centric payment and settlement.
- Lack of a granular and robust global regulatory approach: Absence of robust global regulations for stablecoins may lead to unsystematic, non-transparent and arbitrary stablecoin exchanges, which can disrupt the monetary stability of the countries.
- Lack of transparency: Stablecoins operate outside regulations and hence their exchange remains non-transparent, opaque and difficult to trace.
- De-pegging: The value of stablecoins is generally considered to be stable, however market conditions, liquidity issues and regulatory changes could lead to a deviation from its stable value.
- Counterparty risk: Investors sometimes lose out on their money owing to lack of transparency on the end of counterparts such as stablecoin issuers in matters such as inappropriate licensing.
- Fear of fraudulent practices: Stablecoin issuers could intentionally mislead their customers with false information, which could cause mispricing and market dysfunction.

The above-mentioned challenges primarily exist due to the opaque, arbitrary and non-transparent operation of stablecoins. This is making the countries vulnerable to financial instability and fraudulent practices. Given their cross-border nature, a global regulatory roadmap for stablecoins, elaborating upon the definitions, stakeholder duties, penalties, prescriptions and incentives shall be useful.

Conclusion:

Stablecoins are currently in the spotlight of policymakers due to their rapid growth, increasing global use cases and potential financial risk contagion channels. Stablecoins account for only a small part of the total crypto-asset market, but the largest ones have assumed a critical role within the crypto-asset ecosystem.

Stablecoin issuers should be subject to strict prudential requirements. Some of these instruments are starting to find acceptance beyond crypto users and are being used as a store of value. If not properly regulated, stablecoins could undermine monetary and financial stability. Depending on the model and size of the stablecoin arrangement, strong, bank-type regulation might be needed.

Section II - Stance of G20 Countries

The table below represents the current stance of the G20 countries. The countries having a regulation/draft regulation/positive outlook towards stablecoins have been color coded green. Similarly, countries in-between a regulation, ban and or currently deliberating on their position on stablecoin have been color coded yellow and finally the countries which have disregarded stablecoins have been color coded red.

S No.	Entity	Details
United States		
1	Federal Government of the United States	• **Stablecoin Trust Act, 2021:** The Act was introduced for the creation of a regulatory framework on stablecoin and to ensure consumer protection. It elaborates upon aspects such as privacy protection, treatment of insolvent payment, exemptions, permissible stablecoin issuers, depository institutions and issuance. • **Stablecoin Innovation and Protection Act, 2022:** The Act was introduced to regulate qualified stablecoin issuers. The Act elaborates upon the various kinds of stablecoin issuers, insurance of stablecoin redemption payments, interoperability requirements and relevant timelines. • **Stablecoin Transparency Act, 2022**: The Act was introduced to establish relevant reporting requirements for the issuers of stablecoin.
	Federal Reserve of the United States	• **Jarome Powell, Chair:** *"Stablecoins have a role in the financial sector if they receive appropriate regulation. There are genuine concerns about permissionless public blockchains because they've been so susceptible to fraud, money laundering, and so on."* • **Lael Brainard, Vice Chair:** *"There are two specific areas that merit heightened attention because of risks of spillovers to the core financial system: bank involvement in crypto activities and stablecoins. Presently, crypto has not become sufficiently interconnected with the core financial system to pose broad systemic risk. But it is likely regulators will continue to face calls for supervised banking institutions to play a role in these markets."*
United Kingdom		
2	Government of the United Kingdom	• In October 2022, UKs lawmaker committee agreed to formulate rules on stablecoins for their regulation of in a staged and proportionate manner. • A government documents called - *'UK regulatory approach to crypt assets and stablecoins: Consultation and call for evidence'*, mentions that that the first stage of regulation will be a consultative process, focused on establishing a sound regulatory

		environment for stablecoins. The immediate risks and opportunities shall be discussed here to strategically assess the volatility of this emerging market. • The regulations shall further address aspects such as tokens and services widely informed by the analysis and with due consideration to the views of industry, consumers, and regulators.
	Bank of England and HM Treasury	• The Bank of England and HM Treasury are working closely with the Financial Conduct Authority to establish the regulatory framework for systemic and non-systemic stablecoins. • In a consultation paper called- '*The digital pound: a new form of money for households and businesses?'*, it mentions that if appropriately designed, with a robust regulatory framework, stablecoins may offer greater functionality, convenience, and cheaper services. Novel features such as programmability, smart contracts, or micropayments, could also drive demand for new digital payment methods.
		European Union
3	Council of European Union	• Stablecoins in EU are being regulated through 'Markets in Crypto Assets (MiCA)', a legislation proposed by the European Commission in September 2022 to ensure financial stability, protect consumers and investors and promote innovation and use of crypto assets. • MiCA subjects' issuers of large stablecoins to strict rules such as maintaining reserves to cover all claims and providing immediate redemption rights to holders. • The MiCA framework limits the volume for stablecoin payments to $200 million per day. • On June 16, 2022, Circle Internet Financial Ltd announced the launch of its fully reserved euro-backed stablecoin. The project has been christened Euro Coin, or EUROC, and will be the first stablecoin back by the euro.
		Japan
4	Financial Services Agency (FSA)	• On 11th October 2022, FSA introduced the 'Regulatory framework for Crypto Assets and Stablecoins' to ensure financial stability, user protection and combat AML/CFT. • As a part of Payment Services Act 2022, Japan is planning to lift the ban on foreign stablecoins in 2023. FSA will only allow those stablecoins that successfully pass individual checks ensuring that such crypto assets are safe from the viewpoint of user protection. • Stablecoin Bill, 2023 has been passed by the Japan parliament to ensure investors protection and strict regulations for the operation of private players. The bill shall provide clarity on stablecoins definition, legal status and licensing.
		Russia
5	Ministry of Finance	• Russia had initially taken a hard stance against the use of digital currencies and crypto activities in the country. However, a shift has been observed in its position. • The Ministry of Finance in Russia has backed the legalization of transactions with stablecoins in Russia.

		• Russia has collaborated with Iran to develop stablecoins backed by gold, the currency shall be nomenclatures- *'token of the Persian Gulf region'*. ○ According to Deputy Finance Minister Alexey Moiseyev, *"We are currently working with several countries to create bilateral platforms in order not to use dollars and euros. We offer mutually acceptable tokenized instruments that will be used on these platforms, which are essentially clearing platforms that we are currently developing with these countries."* • Legislations such as the 'Virtual Currency Law' are applicable for stablecoins in Russia. • The Treasury Department and Central Bank of Russia (CBR) have submitted a legal framework for digital currency. However, legislation central to stablecoin is yet to be introduced.
	Central Bank of the Russian Federation	• Usage of crypto **assets** i.e., stablecoins discouraged as a mode of payment at home but encouraged to use for international trade. • Russia intends to create cross border platforms for clearing settlements.
Argentina		
6	Legislature of San Luis	• In December 2022, the province of San Luis approved legislation allowing the issuance of its own stablecoin pegged to the US dollar. • The token, dubbed the "Activo Digital San Luis de Ahorro", will be available to all citizens of the province over the age of 18 and 100% collateralized in liquid financial assets of the province. • The legislation titled "Financial Innovation for Investment and Social Economic Development" authorizes the province to issue the stablecoin up to 2% of its annual budget.
	Legislature of Mendoza	• In August 2022, the Mendoza Tax Administration allowed stablecoins as an option for tax payments to its residents. • This has allowed more online payment options to the roughly two million residents of Mendoza.
Republic of Korea		
7	Bank of Korea	• Stablecoins in Korea come under the purview of the central bank. The Bank of Korea has proposed the introduction of a 'Digital Currency Regulatory Framework' by 2024, an integral part of which shall be stablecoin. • Stringent regulations such as minimum capital reserve, registration and audits shall be designed for stablecoins to ensure financial stability In Korea. The stablecoins pegged to foreign currencies have to comply with the foreign exchange laws.
South Africa		
8	South Africa Reserve Bank (SARB)	• South Africa is regulating the crypto sector as financial assets in order to balance innovation and consumer safety.

		• SARB, as a part of the Crypto Assets Regulatory Working Group in the '*Consultation Paper on Policy Proposals for Crypto Assets*' has mentioned that stablecoins directly fall under the ambit of crypto assets despite being backed by fiat currency. • SARB has initiated Project Khoka 2 to explore the use of tokenized money, blockchains and digital currency in South Africa. One of the forms of money in this project was stablecoins, which was issued to commercial banks and used for purchasing SARB debentures to raise capital.
Australia		
9	National Australia Bank (NAB)	• The NAB, one of the four biggest Australian banks, has created a stablecoin called AUDN, which it aims to launch in the middle of 2023. • AUDN could also be used for several other purposes including carbon credit trading, overseas money transfers and repurchase agreements. • The purpose of the AUDN would be to allow its customers to settle transactions on blockchain technology in real time using Australian dollars. • The stablecoin will launch on the Ethereum and Algorand blockchains, the latter a smart contract platform like Ethereum.
Brazil		
10	The Chamber of Deputies	• The Central Bank of Brazil has acknowledged stablecoins as cryptocurrencies, assets mainly used as a means of payment, exchange or clearing that are not limited to a specific venture. • The lower house of the National Congress of Brazil passed a regulatory framework in November 2022 that legalizes the use of stablecoins and cryptocurrencies as a payment method within the country. • This does not make stablecoins and cryptocurrencies legal tender within the country. However, it allows for inclusion of digital currencies and air mileage programs in the definition of payment methods that are under the supervision of the country's central bank. • The same was signed into a law in December 2022 and will likely take effect by June 2023. *(Complete details of the acceptability of stablecoins and cryptocurrencies as payment methods will be clear once the legislation is in effect.)*
Germany		
11	Bankhaus von der Heydt	• Germany's Bankhaus von der Heydt, or BVDH, in December 2020 launched a Euro stablecoin on the Stellar network. • The EURB stablecoin is fully regulated and backed one-for-one with Euros. • It is the first stablecoin issued directly by a banking institution on Stellar and the first of its kind in the crypto market from Europe.

Canada		
12	Bank of Canada	• Staffers at the Bank of Canada have published an analytic note in December 2022 delving into the nature of stablecoins and at the heart of the paper is a recommendation for sterner regulation of the asset class. • Given the novel nature of stablecoin usage, the central bank's researchers have identified parliamentary action as the best way to mitigate the risks.
	Canadian Securities Administrators (CSA)	• The CSA, as of February 2023 has prohibited crypto asset trading platforms within the country from allowing customers to buy or deposit stablecoins, or other "Value References Crypto Assets" (VRCAs) without the CSA's prior written consent. • The CSA has announced a ban on the sale of "algo stablecoins" unless crypto exchanges have explicit approval from the CSA.
France		
13	Autorite des Marches Financiers (AMF)	• France is a crypto friendly nation but clarity on stablecoin is yet to be observed here. 'The Autorite des Marches Financiers (AMF) do not accept stablecoins as legal tender and consider its acceptability within the definition of digital assets.
	Bank of France	• The Bank of France considers that stablecoins, especially those backed by official currency, should be classified as e-money.
India		
14	Reserve Bank of India	• There is no regulation at present to regulate stablecoins in India. • The RBI in its report on 'Regulatory Initiatives in the Financial Sector', highlighted the threats generated by unregulated crypto on the financial stability of India. It has also reiterated the Financial Stability Board's view that unbacked crypto assets, stablecoins, decentralized finance (Defi) and crypto asset trading platforms pose serious risks to the already regulated financial system of the country. • RBI has said that one of its priorities is to develop a framework for global regulation, which includes the possibility of prohibiting unbacked crypto assets, stablecoins and DeFi.
	Ministry of Finance	• The Indian Finance Minister has said that the country is looking at developing a global standard operating procedure (SOP) during its current G20 Presidency and the same would be implemented this year.
Indonesia		
15	Bank Indonesia	• Indonesia has one of the fastest growing crypto markets, which in a latest development it is being regulated by the Financial Services Authority. • In terms of stablecoins, the future of the country and particularly the central bank is at a crossroads owing to the disruptions it shall cause to the banking system and official currencies. Further, it might escalate the risk of money laundering and terrorism financing, thereby causing macro financial risks and undermining the effectiveness of central bank policy. A stance on stablecoin is yet to be taken by the country.
Italy		

16	Bank of Italy	• In Italy there is no specific regulation for stablecoins, and they follow the regulations of virtual currency. • As per Fabio Panetta, Senior Deputy Governor, Bank of Italy- "Stablecoins have emerged and have the potential to become globally systemic, if issued by big techs. While the value of stablecoins is linked to 'reserve assets and adequate regulation and oversight could reduce risks, stablecoins are not risk-free. Stablecoins do not benefit from deposit insurance, nor do they have access to central bank standing facilities. They are therefore vulnerable to runs." He has further mentioned that the crypto dominos are falling, sending shockwaves through the entire crypto universe, including stablecoins and Defi.
Turkey		
17	Central Bank of the Republic of Turkey (CBRT)	• Crypto regulations in Turkey are comparatively slow-paced owing to the risks and challenges accompanied with it. • The country introduced the 'Disuse of Crypto Assets in Payments' in 2021 which prohibits the use of crypto assets in payments, development of business models by banks, electronic money institutions and acting as intermediaries in the transaction of crypto assets. • No restriction or promotion has been announced on the transactions with stablecoins in Turkey. However, as stablecoins deal with certain amount of reserve to their investors, it involves legal consequences with respect to civil and criminal law, hence should be dealt with precaution.
Mexico		
18	Central Bank of Mexico, Ministry of Finance, and Public Credit National Banking and Securities Commission	• Stablecoins are prohibited in Mexico. In June 2021, financial authorities said crypto-assets are not legal tender and not considered currencies under existing laws, warning that operating with them could lead to sanctions.
Saudi Arabia		
19	Saudi Central Bank	• There is no regulation at present on Stablecoins in Saudi Arabia. • In 2018, the Saudi government announced the banning of banks processing transactions involving cryptocurrencies. It has maintained its position that those trading in cryptocurrencies are illegally promoting financial vulnerabilities and risks. • In Saudi Arabia, a distaste towards crypto assets has also prolonged due to its affiliation with opposing religious values such as gambling and volatility.
China		
20	People's Bank of China (PBOC)	• In China, any transaction in stablecoins is banned since September 2021. • The PBOC cited the role of cryptocurrencies in facilitating financial crime as well as posing a growing risk to China's financial system owning to their highly speculative nature.

***Hong Kong**		
20.1	Hong Kong Monetary Authority (HKMA)	• At the end of January 2023, the HKMA indicated it may require firms to keep to their principal business and have a locally incorporated entity in Hong Kong if they want to obtain stablecoin licenses, according to its consultation conclusions. • The HKMA's current stance is that stablecoins must be fully backed by high-quality liquid assets (which HKMA has yet to detail) and be redeemable to their reference's fiat currencies at par. Under this regime, algorithmic and arbitrage coins are effectively not allowed. • The HKMA plans to supervise the governance, issuance and stabilization of fiat-backed stablecoins, for which issuers must maintain reserves matching the amount of the crypto in circulation.

Section III - Stance of International Organizations

Organization	Views/Considerations/Recommendations on Stablecoins
Organisation for Economic Co-operation and Development (OECD)	• Stablecoins constitute one of the greatest points of vulnerability of the DeFi market, and the connecting tissue that links DeFi and TradFi. Recent OECD analysis around DeFi and the institutionalisation of crypto assets anticipates a scenario where a major stablecoin loses its peg and describes the risks of disruption to digital asset markets that could result from mass redemptions of such stablecoin arrangements. • Although there are indeed differences between the different types and design models of stablecoins, the run-risk applies across the board for such arrangements. • Stablecoins backed by reserve assets held by the issuer, a fall in the price of reserve assets, failure to safeguard them appropriately, lack of clarity regarding the redemption rights of holders or operational risks and disruption related to cybersecurity are all factors that can undermine investor confidence. • A negative sentiment toward crypto-assets or a severe disruption in DeFi platform could spike large demand for stablecoin redemptions that would as well turn into a classic run due to an insufficient amount of liquid backing assets. Such fire sales could disrupt critical funding markets with potential impact on financial stability overall, especially given that traditional financial institutions may hold assets of stablecoin reserves. • As OECD analysis highlights, given the significant holdings of commercial paper as part of reserves backing major stablecoins, sudden mass redemptions of stablecoin arrangements can affect the stability of broader short-term credit markets. Any failure or disruption of a large DeFi participant could equally trigger such runs on stablecoins. • If the adoption of crypto assets continues to increase, the linkages between DeFi and TradFi may become stronger, possibly increasing the risk of spillovers into traditional financial markets and the real economy. The role of policy makers will be to evaluate and address emerging risks and consider policy actions to address them. The promotion and encouragement of investor protection disclosures is another area where policy makers may intervene to mitigate risks related to the holding of crypto-assets and participation in DeFi. A better understanding of the mechanisms involved, and in particular of the limitations and related risks, should be fostered. • It is important that policy makers consider ways to enable safe and responsible DeFi innovation in a compliant manner, while anticipating and addressing emerging risks for both participants and the markets.

World Economic Forum (WEF)	The World Economic Forum's Digital Currency Governance Consortium has published a comprehensive analysis of the 'Macroeconomic Impact of Cryptocurrency and Stablecoins'. The impetus was a rising concern around the potential spillover effects of crypto and stablecoins on the financial system. The WEF is of the view that allowing cryptocurrencies and stablecoins to play a regulated role in economies will have a major macroeconomic net benefit. The goal for the future should be to embrace the innovations that cryptocurrency and stablecoins bring while using regulation to curtail the risks to the economy. • Policymakers should create an international classification framework with nuanced regulations. • Crypto and stablecoins should be included in monetary and financial statistics. • Governments should coordinate with other governments to mitigate regulatory arbitrage and consider economic projections when designing regulations. • Businesses should proactively work in partnership with regulators when designing business models.

Bank for International Settlements (BIS)	The Bank for International Settlements (BIS) Committee on Payments and Market Infrastructures (CPMI) and the International Organization of Securities Commissions (IOSCO) published a joint report on the regulation of stablecoin arrangements. It is intended for use by market participants as they design, develop, and operate their products and services that are systemically important after launch; and by regulatory, supervisory, and oversight authorities as they assess and oversee stablecoin arrangements.
	
	• Stablecoin arrangements should observe the Principles for Financial Market Infrastructures (PFMI). The PFMI, as defined by BIS, are a set of 24 key international standards that the BIS issued for financial market infrastructures to strengthen and preserve financial stability.
	• The BIS Report is structured around four of the 24 PFMI principles - governance, comprehensive risk management, settlement finality, and money settlements. Although not all of the PFMI principles are covered, systemically important stablecoin arrangements primarily used for making payments would be expected to observe all of the relevant PFMI principles.
	• Following the four principles noted, a systemically important stablecoin arrangement should:
	    ○ Employ appropriate governance, including clear documentation and disclosures of ownership and management structures, control, lines of accountability, human intervention capabilities, operations, and affiliations.
	    ○ Develop appropriate risk management and mitigation frameworks and tools to address material risks in an integrated and comprehensive way (e.g., legal, credit, liquidity, operational, and other risks) that it bears and poses to customers and affiliated entities ("institutional interdependencies").
	    ○ Provide clear and final settlement (at a minimum by the end of the value date, regardless of the operational settlement method used), and manage risks arising from a misalignment between technical and legal finality.
	    ○ Minimize and strictly control the credit and liquidity risk arising from the use of non-central bank money.

Financial Action Task Force (FATF)	• So-called stablecoins have the potential to spur financial innovation and efficiency and improve financial inclusion.

	• The FATF has found that so-called stablecoins share many of the same potential ML/TF risks as some virtual assets, in virtue of their potential for anonymity, global reach and layering of illicit funds. Depending on how they are designed, they may allow anonymous peer-to-peer transactions via unhosted wallets. These features present ML/TF vulnerabilities, which are heightened if there is mass adoption. • Central developers and governance bodies of so-called stablecoins will have AML/CFT obligations under the revised FATF Standards, where they are carrying out the activities of a financial institution or VASP, in addition to the AML/CFT obligations of other entities with AML/CFT obligations, e.g. wallet providers. • Based on current known models, the FATF considers that so-called stablecoins with potential for mass-adoption will be centralised to some extent, with an identifiable central developer or governance body. • While decentralised so-called stablecoins without such an identifiable central body, prima facie, may carry greater ML/TF risks due to their diffuse operation, the FATF considers that their potential for mass-adoption is lower than centralised arrangements and, therefore, their associated ML/TF risks are smaller (although still present). • The FATF has also identified potential risks which may require further action, including; so-called stablecoins located in jurisdictions with weak or non-existent AML/CFT frameworks and so-called stablecoins with decentralised governance structures and anonymous peer-to-peer transactions via unhosted wallets.
Financial Stability Board (FSB)	In 2022, the FSB, in consultation with relevant international standard-setting bodies and international organisations, reviewed its High-level Recommendations, including how any gaps identified could be addressed by existing frameworks, considering recent market and policy developments. The consultative report suggests that the FSB undertake a review of implementation of the revised High-level Recommendations by end-2025. Recommendations: • Authorities should have and utilise the necessary or appropriate powers and tools, and adequate resources, to comprehensively regulate, supervise, and oversee a GSC arrangement. • Authorities should apply comprehensive regulatory, supervisory and oversight requirements consistent with international standards to GSC arrangements on a functional basis and proportionate to their risks. • 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. • GSC arrangements have in place a comprehensive governance framework with clear and direct lines of responsibility and accountability for all functions and activities. • GSC arrangements have effective risk management frameworks in place especially with regard to operational resilience, cyber security safeguards and AML/CFT measures. • GSC arrangements have in place robust systems and processes for collecting, storing and safeguarding data. • GSC arrangements have appropriate recovery and resolution plans. • GSC issuers provide all users and relevant stakeholders with comprehensive and transparent information to understand the functioning of the GSC arrangement, including with respect to governance framework, redemption rights and its stabilisation mechanism. • GSC arrangements provide a robust legal claim to all users against the issuer and/or underlying reserve assets and guarantee timely redemption.

	• GSC arrangements to have an effective stabilisation mechanism, clear redemption rights and meet prudential requirements.
International Monetary Fund (IMF)	The IMF released a Note in September 2022 which focuses more narrowly on stablecoins and their arrangements. Stablecoins are a type of crypto asset that aspire to dampen their price volatility through various stabilization mechanisms, but there is no stablecoin in the market right now that can assure this under all circumstances. Crypto assets, including stablecoins, are not globally systemic, but in some emerging market economies, they might be on the verge of generating risks to financial stability. Stablecoins issuers should be subject to strict prudential requirements. Some stablecoins are starting to find acceptance outside the crypto space, and they have the potential of becoming widely used payment instruments. As such, they look more and more like "money." If not properly regulated, stablecoins could pose serious challenges to monetary and financial stability. We need strong, bank-type regulation for stablecoins, and central banks should take the lead in such an endeavor given stablecoins' potential presence in the monetary system. Regulatory Considerations: • Prudential requirements to address mismatches • Concentration limits • Cross-border cooperation • Compliance with PFMI (for designated and global stablecoin arrangements) • Disclosure and audit requirements • Segregation of the reserve assets and restriction of the reuse of reserve assets • Implementation of IOSCO recommendations on crypto trading platforms • Limits or restrictions on the use of leverage • Requirements for the robustness, resiliency, and integrity of operating system • Adopt Financial Action Task Force standards • Legislative change to empower regulators • Authorities to determine legal classification of stablecoins