

Regulatory Outlook for Crypto and Digital Assets

Thanks for the invitation to speak at the Ripple and APAC Blockchain Australia Policy Summit, and special thanks to Rahul Advani and Steve Vallas . As co-chair of Global Digital Finance (GDF) we value collaboration globally with other Blockchain industry groups.

Briefly GDF is an open innovation platform driven by an association of members that focuses on standards, advocacy, and education for digital assets. GDF also promotes and supports the development of global best industry practices through collaboration with regulators and industry. We have many member sub-committees, are an affiliate member of IOSCO, a member of the IOSCO AMCC Fintech Ctee , convene global industry forums and a global regulator only forum which is Chaired by a GDF Director and former Commissioner of the CFTC. We have recently established new forums dedicated to each of Tokenization, Payments DFMI and Custody. Attendance is open to all ,and will be in both APAC and European/US time zones .

2023 saw a great deal of activity in the crypto, stablecoin, CBDC and the tokenised asset space. From regulatory crackdowns to innovative use cases, the global regulatory landscape remains dynamic and complex. As we enter 2024, let's look into some key trends and potential regulatory developments shaping this evolving ecosystem.

1. Crypto Regulation

The broader crypto regulatory landscape remains fragmented, with individual countries taking varying regulatory approaches.

- **Consumer Protection and market integrity**-Concerns are bringing the sector into the regulatory perimeter by way of case law or statute, particularly in relation to stricter requirements for disclosure, marketing practices, platform operations and custody.

Globally, IOSCO released *policy recommendations for crypto and digital asset markets* in November 2023. Anchored in the principle of “same activity, same risk, same regulation” and IOSCO’s overall regulatory principles. These will set a global baseline regulating centralised crypto service providers (or CASPs). They outline expectations around market integrity ,investor protection

,cybersecurity and anti-money laundering . These principles also map well to in GDF's voluntary *Global Crypto Asset Standards*.

Australia, as an IOSCO member is expected to align its regulation with IOSCO Recommendations. In my view the Government's proposed approach reflects this alignment by bringing it into the *FSR licensing system*. *Global consistent implementation, will assist mutual recognition, so IOSCO will be closely watching and assisting implementation by members .*

Additionally, the *IOSCO policy recommendations, for Decentralised Finance* released in December 2023, recognise the distinct features of DeFi following the same activity, same risk, same regulation principles, but shaped around DeFi risks to consumer protection, market integrity, cybersecurity, and financial stability.

- **Systemic risk** -FSB -in July 2023, published their *global regulatory framework for crypto-asset activities and stablecoins* focused on crypto activities that could give rise systemic risks ,given their scale ,structural vulnerabilities and increasing inter-connectiveness to the TradFi system .The recommendations focus on risks to financial stability and complement of the work of global SSBs like the IOSCO recommendations.The implementation of framework will be monitored on reported on
- **Anti-Money Laundering** -expect these regulations to be strengthened, including compliance with the travel rule and law enforcement co-operation and country evaluations by FATF.
- **Competition** -striking the right balance between fostering innovation and ensuring a level playing field will be critical. Regulatory sandboxes and innovation hubs will be crucial.
- **Other regulatory perimeters** impacting the space, include prudential, taxation, data privacy, cybersecurity, payments, bankruptcy, and accounting.

2 Stablecoins

- Expect heightened focus on stablecoins by global and local SSBs, particularly in reserve composition, redemption rights and financial crime risks.
- FSB-as mentioned, has already published as part of its framework in July 2023 high level recommendations on systemic stablecoins, aiming for consistency and effectiveness across borders.

- The *UK stablecoin current proposal* which GDF provided input last month when the discussion papers closed. The proposals will still have a consultation and final policy stage, with implementation likely not to come until late 2024 or 2025. Broadly, the UK proposes to regulate fiat backed stablecoins as a form of digital money.

Some of the key features of the proposed regulation are:

- Stablecoin issuers and custodians will need to be authorised by the Financial Conduct Authority (FCA) and comply with rules on capital, liquidity, governance, risk management, and consumer protection.
- Stablecoin payment systems that operate at a systemic scale in the UK will need to be regulated by the Bank of England (BoE) and meet standards on resilience, interoperability, and access.
- Stablecoin issuers will need to ensure that their tokens are fully backed by high-quality assets and that they can redeem them at any time at par value. Unique to the BoE proposals, are that systemic stablecoins would need to be fully sterling backed with reserves held at the Bank of England.
- Stablecoin issuers will need to disclose information on their token design, reserve assets, redemption rights, and fees- to the public and the regulators.
- Of particular interest are the FCA's proposals for to enable use of overseas stablecoins.

3.CBDC

- 2024 will see continued exploration and pilot programs for CBDC, both in retail and wholesale payments. For example, the RBA as we know has already conducted pilots in the retail and wholesale CBDC space. There have also been notable regional developments in Hong Kong, Singapore and Korea as they consider how they may develop CBDC infrastructure.
- The race to develop a scaleable CBDC could as we know re-shape the financial landscape and potentially impact the wider crypto ecosystem. Developments by the ECB with the Digital Euro will be closely watched.

4 Tokenised Assets

- Tokenised securities including TradFi bonds, green bonds and funds are expected to revolutionise the financial system, with issuance already in many major jurisdictions, like UK, France, Switzerland, Hong Kong, and USA. Exchanges like Swiss SIX are

being established focused on digital assets and LSEG are also reputedly examining doing the same. It's all about deeper and broader liquidity, capital and operational efficiency, but it will not happen overnight, remember it took nearly 50 years for autos and tractors to displace horses on US farms, hopefully it will not that long on financial infrastructure.

- The regulation of security tokens and asset backed tokens is emerging in different jurisdictions e.g., the UK. The challenge will be how to apply existing regulation to new asset classes.
- Regulatory sandboxes like the UK, s *Digital Securities Sandbox* and the EU, s *DLT pilot regime* are facilitating experimentation and testing of tokenised securities in controlled environments. These initiatives could pave the way for clearer regulation in the future.
- We are seeing more examples in wholesale markets combining asset tokenisation and wholesale CBDC for settlement, e.g., Switzerland tokenised Canton bonds settled with wholesale CBDC.
- Potential for tokenised wholesale CBDC and tokenised assets to sit on the same network, to reduce settlement risk using smart contracts could drive standardization and interoperability and help scale tokenised securities. E.g. the *BIS "Unified ledger"* proposal. Alternatively "Project Guardian" done by MAS and JP Morgan successfully tested using hash time locked smart contracts to achieve delivery against payment in a simultaneous exchange.
- The FSB work plan includes a stocktake of recent developments, including ongoing or planned projects, regarding tokenisation of assets with the aim of identifying potential financial stability policy implications and exploring policy implications that warrant further considerations. Work will complete sometime in 2024.

Expect global SSBs themselves to start focusing on tokenised assets, and I expect using the same activity, same risk, same regulation principle. For example, CPMI work plan is exploring the benefits, risks, and challenges to central banks of a tokenised financial ecosystem. Equally IOSCO is in the process of setting up Tokenisation working party with similar objectives to CPMI. 2024 will be a year of discovery and education, hopefully 2025 will be one of policy recommendations, including perhaps from CPMI-IOSCO on application of the PFMI, s to tokenisation..

Looking Ahead

- The regulatory landscape for crypto, stablecoins, CBDC and tokenised assets is constantly evolving. Some key themes to watch, other than what I have already mentioned.
 - **Technological Infrastructure Risks**-regulators are already focused on technology risks of DLT, and how they may shape regulatory approaches ,eg Custody ,SAB21-SEC in USA and new CS060 Basel rules. Early thinking on cyber risk and quantum computing like Project Leap by the BIS Innovation Hub.
 - **Legal risks**-like the enforceability of smart contracts and atomic settlement in the event of bankruptcy of a non-bank counterparty. Settlement Finality with Banks is covered in Australia by zero-hour rule or in EU the settlement Finality Directive.Insolvency law can have the effect of reversing a payment, notwithstanding that it has successfully been processed by a payment system. Provisions of the Payment Systems and Netting Act 1998. A “participant” in an RTGS system who goes into external administration is deemed, for the purposes of settlement payments made through the RTGS system, to have gone into administration on the following day.
 - **DeFi**-will get continued focus from regulators as the ecosystem evolves e.g., IAIS work in DEFI insurance platforms.
 - **Interoperability** between different DLTs will continue to be a focus,as will interoperability between DLT and tradfi infrastructure .
 - **Harmonisation** of regulation across jurisdictions will continue to be an issue. E.g. MICA does not allow for mutual recognition.
 - **International Co-operation and consistent implementation of global regulatory standards** will be critical -FSB and SSB, s will be monitoring implementation of new global standards and reporting back.

The year 2024 promises to be another pivotal year with increased regulatory attention on ongoing innovation, the industry will continue to navigate a dynamic and complex landscape. Understanding the trends and collaboration within industry and with regulators will continue to be crucial in finding the right balance between fostering innovation and

allowing regulators to meet their mandates and achieve a more inclusive and efficient finance system.
