Point Zero Forum

Crypto Regulatory Roundtable summary report

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1. Preface

1.1. On June 23rd 2022, at the Point Zero Forum, organized by Elevandi in Zurich, Switzerland, a crypto regulatory roundtable gathering representatives of regulatory bodies from multiple international jurisdictions, industry leaders, associations and academics took place. During this session, participants exchanged views and attempted to answer key questions regarding the means by which regulators can best set boundaries and rules for an asset class which was designed to be borderless and self-governing whilst providing for ample room for continued innovation and evolution.

1.2. With a growing suite of diverse products, the attention of regulators and public alike has been centered of late on stablecoins; during this session participants discussed how the industry and regulators can and should work together to build a responsible and sustainable ecosystem.

1.3. This summary report written by StraitsX in partnership with Elevandi covers general observations without attributing any comment to any person or organization.

2. Attendees

7 Participant Regulators:

- Mr Ken Nagatsuka, Executive Director, Head of Payments Department, Monetary Authority of Singapore (MAS)
- Mr Alan Lim, Head of FinTech Infrastructure Office, MAS
- Ms Claudine Hurman, Director of Financial Infrastructures, Innovation and Payments, Banque de France
- Ms Emma Butterworth, Head of Regulation, Financial Market Infrastructure, Bank of England
- Mr Peter Grills, Deputy Director, Office of International Financial Markets, US Department of the Treasury
- Ms Nino Landerer, Head Capital markets and infrastructure, State Secretariat for International Finance (SIF)
- Mr Timothy Lane, Deputy Governor, Bank of Canada

8 Industry Players:

- Mr Richmond Teo, Co-founder and CEO Asia, Paxos
- Mr Raagulan Pathy, VP Asia Pacific & CEO Singapore, Circle
- Mr Eric Anziani, Chief Operating Officer, Crypto.com (or Ms Katie Mitchell, Global Head of Policy and Engagement, Crypto.com)
- Mr Faryar Shirzad , Chief Policy Officer, Coinbase
- Mr Liu Tianwei, Co-founder and CEO, Xfers
- Mr Richard Teng, Regional Head of MENA, Binance
- Mr Umar Farooq, CEO, Onyx by JP Morgan
- Mr Jack Ehlers, COO, Bitstamp

2 Association / Academic:

- Mr Anson Zeall, Co-founder and Emeritus-Chair of ACCESS Singapore & IDAXA
- Dr Iwa Salami, Co-Director, The Centre of FinTech

3. Overview

3.1. Ahead of the event, participants to the roundtable were tasked with preparing answers to four key questions relevant to regulators about various corners of the cryptocurrency industry:

- What are the future use cases of cryptocurrencies, including stablecoins, that will have the most significant impact on mainstream transactions?
- How do we improve cryptocurrency investor protection and enhance the stability of stablecoins?
- What market conduct rules should be introduced to bring about more confidence in crypto exchanges?
- Can and should DeFi activities be regulated; which activities need regulatory intervention sooner?

3.2. For each question, one designated industry participant was tasked with leading the discussion with a 5 minutes statement, followed by 10 minutes of open conversation between all participants.

3.3. Section 4 aims to reflect the key takeaways and calls to action of the discussion, while Sections 5 to 8 of the report aim to represent an accurate summary of the discussions that took place for each question without attributing any comment to any person or organization.

4. Key takeaways

4.1. The majority of industry participants and participant regulators agreed that both the industry and regulators should strive for striking the right balance between protecting consumers and enabling innovation.

4.2. Both Industry players and participant regulators generally agreed on the role that stablecoins can play in modernizing financial services through lowering costs and inefficiencies. Participant regulators noted however that stablecoins may represent only one of the possible ways of achieving these goals.

4.3. Most participants agreed that two key aspects for stablecoins must be guaranteed: (a) redemption at par with no hindrance for the end-user, and (b) transparency over the nature of the underlying reserve backing stablecoins.

4.4. Most industry participants commented that reputable crypto companies apply self-imposed standards on key areas of their businesses including security, custody, market integrity, token listing, but that regulators can play a role in mitigating the exposure by end-users to platforms that apply sub-par standards.

4.5. Several industry participants advocated for a clarification of the taxonomy of stablecoins to enable end-users to better differentiate between the various stablecoin models that exist today (e.g algorithmic, asset-backed, etc) and the risks associated with each of them.

4.6. Several industry participants advocated that any standards and rules imposed on the industry should be global in nature to address the borderless nature of the technology. Similarly, most participant regulators called for international cooperation.

4.7. Industry participants commented on the potential for decentralized technology to revolutionize the ways the world goes round in many areas, notably thanks to the promises of digital identity, and warned against regulation front-running innovation in DeFI.

5. What are the future use cases of cryptocurrencies, including stablecoins, that will have the most significant impact on mainstream transactions?

5.1. The majority of industry participants welcomed the opportunity to have direct regulatory access through such roundtable discussions.

5.2. Several industry participants commented on the speed and cost benefits of stablecoins and crypto tokens in payment systems and their possible use cases, including wholesale payments among banks and financial institutions, cross-border remittances, micropayments, cross-border cards settlement, or delivery versus payment. Several participants also commented that possible use cases went beyond payment transactions and notably shared the example of content monetization, humanitarian relief, and building communities.

5.3. Several industry participants shared their beliefs that crypto tokens, and in particular stablecoins, will see increased adoption and usage due to the role they can play in modernizing financial services, notably in lowering inefficiencies in various areas, which will translate into lowering cost for associated services. One participant added that the rails for enabling such fast adoption have not been built yet and are in the process of being built.

5.4. One industry participant challenged the above by introducing the idea that stablecoins can only achieve the benefits they promise through regulatory arbitrage and that centralized fintech solutions such as Grab, Venmo, Wise can achieve similar frictionless user experiences without requiring stablecoins to get involved in the process.

5.5. One industry participant commented that younger generations have lost their trust in banking institutions and tend to increasingly use token-based solutions such as stablecoins as the alternative. This consumer behavior change led by the younger generation can be captured by banks should they decide to participate.

6. How do we improve cryptocurrency investor protection and enhance the stability of stablecoins?

6.1. The majority of industry participants commented and agreed that the industry shouldn't be building solutions that are looking for problems, but instead should focus on the use cases that will drive further adoption.

6.2. The majority of industry participants and participant regulators agreed that both the industry and regulators should strive for striking the right balance between protecting consumers and enabling innovation.

6.3. Several industry participants commented that there may be a role to play for governments and regulators in protecting end-consumers from using the products that could be deemed too risky.

6.4. Several participant regulators encouraged industry players to further engage with them and comment more clearly on the types of regulations that are needed to achieve the common goal of protecting consumers while enabling innovation.

6.5. Several industry participants advocated for a clarification of the taxonomy of stablecoins to enable end-users to better differentiate between the various stablecoin models that exist today (e.g algorithmic, asset-backed, etc) and thus enable better decision making by users in full understanding of the potential risks they're being exposed to. One of the participants made a sensible analogy between the taxonomy of stablecoins and the taxonomy of sparkling wines. What higher standards should a sparkling wine comply with to deserve being called Champagne?

6.6. Several participant regulators highlighted several possible regulatory models for stablecoins including tokenized bank deposits, payment instruments, securities (e.g. money market funds). One participant added that one challenge to implementing such regulation could be that different jurisdictions are pursuing different goals or approaches to regulation and a coordinated approach would be necessary.

6.7. One participant regulator commented that stablecoin issuers are essentially making a commitment to price stability, and that the centralized stabilization mechanism can be likened to that of banks. Banks are subject to extensive regulations surrounding prudential capital liquidity requirements, governance, reporting, and therefore there might be a need to introduce similar prudential regulations on stablecoin issuers. This participant concluded that while stablecoins are identified as one the possible ways to make cross border payments more efficient, they do not represent the only possible ways to achieve this goal and many alternative ways are being explored by regulators around the world.

6.8. One participant regulator highlighted the key mandate for central banks to ensure financial stability and added that the interconnectedness of the various instruments that exist today will need to be further studied and mapped out. This participant added that two key aspects for stablecoins must be guaranteed: (a) redemption at par with no hindrance for the end-user, and (b) transparency over the nature of the underlying reserve backing stablecoins.

6.9. One industry participant advocated that more currencies besides the US Dollar must be digitized to build a vibrant token-based economy and enable more countries to participate in web 3.0 while sheltering users from FX risks.

6.10. One industry participant commented on two key concepts which could enable more consumer protection around stablecoins: (a) auditing and transparency around the amount of reserve backing stablecoins, and (b) auditing and transparency around the nature (i.e. mix of assets) of the reserve backing stablecoins.

6.11. One industry participant commented on their own experience with a specific regulator on the topic of the regulatory framework that should apply to stablecoins. According to this participant the money market fund model shouldn't apply due to the poor track record of "breaking the buck" for such instruments. Similarly the tokenized deposit model is also inadequate as tokenized deposits represent the credit risk of the underlying bank, and as such tokenized deposits should be interest bearing assets. According to this participant the solution to this conundrum is for stablecoin to represent a safer instrument than the two aforementioned products, and therefore the reserve backing such stablecoin should only be made of risk-free assets such as insured deposits or highly liquid government-issued securities.

7. What market conduct rules should be introduced to bring about more confidence in crypto exchanges?

7.1. Most industry participants commented that reputable crypto companies apply self-imposed standards on key areas of their businesses including security, custody, market integrity, token listing.

7.2. Several industry participants also commented that while they do implement responsible trading programs and follow high business operations standards they cannot guarantee that the rest of the industry takes the exact same approach, and that indeed regulators can play a role in mitigating the exposure by end-users to platforms that apply sub-par standards.

7.3. Several industry participants commented on the lack of enforcement by authorities regarding some of the crypto industry-related events that end up causing many market participants, including retail, to incur large losses. One participant added that securities markets addressed this issue with a combination of mandatory disclosures and market conduct standards imposed by regulators. According to this participant, these high standards that banks comply with currently don't exist at crypto exchanges, including large ones.

7.4. One industry participant advocated for a responsible innovation framework for industry participants including (a) building a financial and digital ecosystem that combats illicit activities and fraud and provides convenient, safe, and secure access to financial services, (b) to strengthen digital security and consumer protection, (c) to expand financial & digital literacy and (d) to support environmental stewardship and sustainability. This participant also commented that there might be a need for regulators to also contribute to market integrity by introducing regulation that solve for key risks (e.g. consumer protection, illicit finance) while enabling innovation. According to this participant, this can be achieved by introducing policies that are modern, harmonized and proportionate.

7.5. One participant regulator commented that the dubious economic fundamentals of many tokens in crypto markets (e.g. issuer-controlled token supply) and repeated security issues such as hacks make the task for regulators more arduous in intervening around market integrity.

7.6. One industry participant commented that industry leaders should continue to challenge each other in applying high standards and warned that regulators shouldn't be too prescriptive as there is a tremendous amount of fast-paced innovation that is happening in the industry and that should be preserved.

8. Can and should DeFi activities be regulated; which activities need regulatory intervention sooner?

8.1. Several industry participants commented on the potential for decentralized technology to revolutionize the ways the world goes round in many areas, notably thanks to the promises of digital identity, and warned against regulation front-running innovation in DeFI.

8.2. Several industry participants highlighted the need for more disclosures in the DeFI space, notably from a consumer protection perspective with the goal that end-users increasingly understand the mechanics of the products they're buying into and the financial risks they're exposed to.

8.3. One industry participant added that there are primarily three areas in which regulators can play a role: (a) Anti-Money Laundering (AML) issues, (b) customer protection issues, and (c) financial stability issues.

8.4. One participant highlighted how the industry demonstrated in the past its ability to self regulate, mentioning the implementation of the FATF Travel Rule recommendation by industry players as an example, and detailing how it evolved from a state of denial in 2019 when FATF first came with this recommendation to a state of consensus on messaging standards that can be leveraged by Travel rule solution providers in the industry.

8.5. One industry participant added that thanks to digital technology the world is essentially becoming borderless and that any standards imposed on the industry should be global in nature regardless of whether these standards are self-imposed by industry consensus or externally imposed by regulators.