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The FSB and IOSCO Are Watching Crypto Assets and DeFi

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The Financial Stability Board (**FSB**) and the International Organization of Securities Commissions (**IOSCO**) are increasing their focus on crypto assets and decentralized financial technologies (**DeFi**). Over the past week, the organization published reports providing updates on, discussing developments in, and assessing risks relating to crypto-asset and DeFi initiatives around the world. Given that these organizations facilitate coordination among national financial regulators, these reports may reflect the thinking of U.S. banking and markets regulators, as well as that of other national regulators. The FSB is currently chaired by Federal Reserve Board Vice Chairman for Supervision Randal K. Quarles; the U.S. Securities and Exchange Commission and Commodity Futures Trading Commission are members of IOSCO.

FSB: A new report on decentralized financial technologies and an update on crypto assets.

- ***DeFi***. In advance of the G-20 meetings in Fukuoka in June, the FSB issued a report that considers the financial stability, regulatory, and governance implications of DeFi. These technologies include, as described in the report, distributed ledgers, cloud computing, and technology based on AI and machine learning. The report observes that these technologies, which may not themselves be "decentralized," can—and are—being used to provide decentralized financial services. These services differ from their centralized analogs in that some core function, whether recordkeeping and updating records or risk-taking or other decision-making, is not conducted by a centralized entity.

  The report observes that DeFi services may lower costs and increase choice for financial services consumers. It also identifies potential risks arising from DeFi, including new forms of concentration risk and greater procyclicality. The discussion of these risks, which are normally associated with fewer and more coordinated market participants, may indicate some skepticism on the part of the FSB about whether DeFi services are really decentralized.

- ***Crypto-asset update***. FSB report provides a general update on regulatory and supervisory efforts underway by international organizations, including at the FSB, CPMI, IOSCO, and FATF, which were last discussed in detail in an October 2018 publication. The report includes new observations about gaps that may arise in international or national oversight of crypto assets and crypto-asset markets. These gaps may be attributable to the nature of some crypto assets, which are not like traditional securities or other regulated products, or from the rapid technological evolution of crypto-asset markets. In recognition of these potential gaps, FSB members agreed on the "need to be forward-looking in risk assessments," including regarding crypto-asset exposures of both bank and non-bank financial institutions and in identifying trends that may give risk to financial stability or other risks. The FSB reiterated, however, the conclusion from its 2018 report that crypto assets "do not present material risks to global financial stability at present."

IOSCO: Consultation report on crypto-trading platforms. The IOSCO report evaluates, and asks for feedback on, key considerations for national markets regulators arising from crypto-trading platforms (**CTPs**) and identifies regulatory tools—largely from existing market regulation toolkits—that may be used by IOSCO member states to address those risks. The report identifies seven key considerations for national regulators in evaluating CTPs: customer access to CTPs; safeguarding of customer assets; conflicts of interest; operational considerations; market integrity; price discovery; and technology. IOSCO correctly observes that these considerations are not unique to crypto-asset markets. Indeed, these are areas of focus for securities, derivatives, and other market regulations, both in the United States and globally. Accordingly, IOSCO identifies its existing regulatory principles and tools that could be applied to CTPs. The report is careful to not recommend any particular regulatory approach and does not undertake to "determine whether a crypto-asset falls within [a particular regulator's] remit."