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GRAY/23/3756

February 3, 2023

**Statement by Mr. Nakunyada and Mr. Damane on Elements of Effective Policies for  
Crypto Assets  
(Preliminary)  
Executive Board Meeting  
February 8, 2023**

1. We welcome the staff's efforts to provide a policy framework for crypto assets considering their growing use in recent years. Moreover, crypto assets continue to pose increasing risks to the global financial system owing to their rising interconnectedness. Against this backdrop, the need for effective regulatory policies to ensure macroeconomic and financial stability, consumer protection, as well as market and financial integrity, has become more evident. We see merit in the proposed framework that is applicable to the Fund's entire membership and pays particular attention to the challenges facing Emerging Markets and Developing Economies (EMDEs). **As such, we support the proposed path towards a regulatory framework that is comprehensive, consistent, and coordinated, while dovetailing into on-going workstreams at various international standard setting bodies (SSBs).**
2. **We welcome the balanced assessment of prospective benefits and attendant risks of crypto assets.** Nonetheless, data limitations in some jurisdictions undermine evidence-based analyses across multiple use cases, especially in EMDEs. In this regard, we wonder if misdiagnosis in the mapping of risks and overgeneralisation in suggested remedial actions, could be a concern? *Staff comments are welcome.* That said, we stress the need to ensure that further private sector innovation that leverages the use of Distributed Ledger Technology (DLT) to increase efficiency in the financial sector is encouraged, managed, and carefully regulated.
3. **We view staff's proposal on the nine core elements to inform the framework on crypto assets as an important step towards the development of credible regulatory parameters.** We positively note that the framework is already being used in some countries and valuable information on its practical application is being collected. We look forward to the staff guidance note that should benefit from this pilot run. Further, we are

encouraged that countries' capacity constraints will be taken into consideration in implementation of the policy framework. The Fund's CD support through long-term resident experts and tailored trainings, will, therefore, be critical in many of our countries. *Regarding element 1 of the framework, in instances where some countries have declared Bitcoin as legal tender (e.g., El Salvador and the Central African Republic), we would welcome staff's comments on the potential workarounds regarding the first core element?*

4. **We agree with the proposed measures to counter potential erosion in the effectiveness of Capital Flow Management Measures (CFMs) including by using anomaly detection models and red-flag indicators.** That said, we emphasize the need for clear staff guidance on how to practically implement the proposed measures, and the appropriate pace at which they can be adopted. In addition, we note the recommendation to develop a comprehensive regulatory framework to cover all actors in the crypto environment as articulated in Element 5. While we support this proposition, we are concerned that the extent and pace at which the regulations are adopted may have unintended consequences in countries with underlying AML/CFT deficiencies. In this regard, we stress the need for close consultation with the authorities, and agreements on pace of implementation and relevant CD/TA support.
5. **We view staff's proposed framework as a critical step towards addressing potential financial stability risks that could arise from the growing interlinkages between the crypto-asset ecosystem and the traditional financial system.** To facilitate a smooth introduction of the framework, we see merit in strengthening FSAPs and FSSRs to help characterize the actual size of the sector and the nature of attendant vulnerabilities and capacity gaps. Importantly, Fund engagement with Regional Consultative Groups that operate within the auspices of the FSB will also be critical. This would inform how best to phase in the framework's implementation and identify priority areas, while considering the heterogeneity across jurisdictions.
6. **Finally, we stress the need to unpack the different types of crypto assets and develop a granular and more refined regulatory approach that appreciates the novel features and specific risks of crypto assets by type.** To uphold the important principle of "same activity, same risk, same regulation", we underscore the need for crypto-assets and intermediaries with similar functions to instruments and intermediaries of the traditional financial sector, to be subject to equivalent regulation. Additionally, we appreciate the need for the Fund's focus on its areas of competency with greater focus on macro-financial implications of crypto assets, while allowing SSBs to operate in their areas of comparative advantage. That said, we emphasize the importance of continued Fund engagement through policy and technical support in these emerging areas.