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

We thank staff for a thorough report and the proposed 9 elements of effective policies. We consider the suggested policy framework to be relevant and balanced and that it would be useful to guide staff's policy dialogue with country authorities, capacity development activities, and discussions with standard-setting organizations. The Fund, with its global mandate, has an important role to monitor risks associated with the crypto assets market as well as potential benefits and give policy advice. To foster data-driven analysis, closing existing data gaps is important.

Due to the cross-border nature of crypto assets, countries should aim for a common regulatory approach and the Fund should support and advocate for it. At the same time, the Fund's role with regards to regulation should remain complementary and closely coordinated with standard setting bodies.

We fully agree with the strong position against granting a legal tender status to crypto assets. As two countries have already done so, it illustrates the timeliness of a policy framework raising awareness about the risks involved. Similarly, we in principle share staff's view, that central banks should not hold unbacked crypto assets or privately issued stable coins as part of their official reserve assets.

As crypto assets markets evolve, continued monitoring and evaluation will be needed on future risks posed by the crypto assets market. The IMF has an important role in this respect. While some of the purported benefits of crypto assets for e.g., improved efficiency of payments, financial inclusion and cross-border payments have not yet materialized, one should be mindful that even an effective regulatory approach cannot fix all risks associated with the crypto assets market. Nevertheless, outright bans of crypto assets might potentially hamper the development of new innovative solutions. *In addition, staff's views regarding traditional financial institutions' uptake of a blockchain technology and tokenization in their business models and a possible regulatory response towards crypto-related innovation – DeFi – would be very useful. Especially the potential risk of DeFi activities falling outside the scope of upcoming regulatory frameworks.*

We agree that regulation is the most productive way forward. Comprehensive and internationally coordinated regulation, generally based on the principle of same activity, same risk, same regulation is the optimal response to address challenges associated with crypto assets. We also share the view that clear capital requirements should be applied on certain regulated financial institutions (such as banks and insurers) concerning their exposures to crypto assets, therefore the Basel Standards on prudential treatments of crypto-asset exposures should be implemented in a consistent manner into national legislation. While EU regulation on markets in crypto-assets (MiCA) aims to comprehensively regulate currently mostly unregulated crypto-assets, including issuers and service providers, it does not cover the area of DeFi.

Regulation related to consumer protection is needed to address externalities where consumers do not fully take into account the costs of using or holding crypto assets. Regulators must aim for international standards to avoid the inherent risk of regulatory arbitrage.

Cross-border flows of crypto assets necessitate credible data provision frameworks to monitor possible impact on international monetary system and illicit activities. We support the view of establishing reporting requirements for authorities to accurately assess market activities. Reliable data about the crypto assets market activity is limited, making it difficult to grasp potential risks, e. g. use for illicit activities, circumvention of sanctions or capital flow restrictions. In addition, the need to disclose of stable coin reserve composition should be mentioned explicitly in the recommendations, as this could mitigate the risk of a run and fire sales of stable coin reserves.

Finally, as during the initial discussion, we would appreciate more information from staff on the way forward. The elements proposed are rather ambitious, and a roadmap for how the Fund can deliver more specific policy advice under each domain may be needed.