

The contents of this document are preliminary and subject to change.

GRAY/23/3771

February 3, 2023

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

We thank staff for the comprehensive paper on “Elements of Effective Policies for Crypto Assets.”

**We recognize that crypto assets and their underlying technology have the potential to bring numerous benefits to our constantly evolving world while also carrying significant risks, which calls for an effective mitigation framework.** These include improved payment systems, cross-border transfers, remittances, reduced cost of doing business, and financial inclusion. Smart contracts on Ethereum, for instance, offer solutions to a variety of challenges across various industries from digital identity, election voting and lending/borrowing to financial record-keeping and government payroll management. Notwithstanding their potential benefits, we also recognize that these assets can carry important macro financial risks such as currency substitution, threat to monetary sovereignty, and capital flow volatility. Legal uncertainty, lack of consumers protection and financial stability and integrity risks also add to the challenges. Therefore, it is vital for regulatory authorities to efficiently mitigate risks from crypto assets without hindering innovation.

**We broadly support the proposed framework with 9 elements under 3 dimensions for effective response to crypto assets.** These elements combined allow to meet expectations for a comprehensive, coordinated, and consistent framework to guide member countries mitigate related macroeconomic, financial and other risks. We, however, acknowledge the time required and the potential implementation constraints highlighted in Box 4 and call for a pragmatic and flexible approach with prioritization of select elements based on countries’ jurisdictional and capacity challenges. The Fund should stand ready to provide the needed

capacity development (CD) assistance, notably to help strengthen monetary policy and PFM frameworks.

**Deepening the work on the macro financial implications of crypto assets (Dimension 1) should rank high on the Fund’s agenda.** In line with its core mandate, the Fund should continue efforts to enhance analyses on the implications of crypto assets and transactions on fiscal policy and the stability of international monetary and financial system, including for capital flow movements. In this respect, special attention should also be given to monitoring and understanding decentralized finance (DeFi)—one of the fastest growing ecosystems in the crypto market—given the risks it may pose to financial stability. In addition, we stress the need for a data collection framework for crypto assets to support proper recording in macroeconomic statistics and are pleased to note that work is already under way. Together, these efforts will help support Fund’s surveillance, policy advice and CD assistance for the membership. That said, while we agree that in the absence of adequate regulations or other safeguards, countries should avoid granting legal tender status to private crypto assets, we believe that exceptions could be made for some highly regulated privately issued stablecoin (i.e., USDC) which is fully backed by US dollars held in the custody of leading financial institutions. *Staff’s comments will be appreciated.*

**Clear and consistent legal, regulatory, and supervisory frameworks (Dimension 2) are necessary to help keep sector risks in check and maximize potential benefits.** We welcome the emphasis put in the report to the establishment of comprehensive laws and regulations to help address cryptos’ negative externalities and legal uncertainties, as opposed to blanket bans. In particular, we appreciate the focus placed on transparency, governance and prudential requirements for actors with exposure to and engagement with crypto assets. Member countries should be encouraged to continue implementing the FATF standards on AML/CFT, while monitoring potential ML/TF risks.

**More efforts are needed to strengthen the proposed classification of crypto assets.** While we understand that the purpose of this paper is not to provide a globally consistent definition and classification of crypto assets and recognize the challenges highlighted in Box 1, we stress that more precise classification should be a prerequisite for a consistent and effective legal and regulatory framework for crypto assets. As indicated by staff, crypto assets could generally be brought under a broad array of existing financial law categories (e.g., deposit, e-money, payment instrument, security, and commodity) and applying traditional rules may still be difficult due to their complex digital nature. These challenges can create regulatory gaps and undermine any global efforts to provide legal clarity and certainty.

**Global coordination and collaboration (Dimension 3) will be paramount for the development and implementation of effective regulatory frameworks for crypto assets**

**to prevent arbitrage, maximize synergies and ensure the stability of the international monetary system.** The Fund should continue to closely engage with other IFIs including standard setters, such as FSB, IOSCO and FATF while remaining focused on areas aligned with its core mandate to support economic and financial stability across its membership.

**Investor education and financial literacy should be a key complement to the proposed regulatory framework.** Promoting financial education is essential to equip investors with competencies that can support an informed and beneficial participation in capital markets. Such participation can contribute to supporting individuals' financial well-being, reduce risks, help diversify investments, while also achieving broader public policy objectives. From a government perspective, this can stimulate investment in domestic capital markets and divert investments from unproductive assets, while contributing to a more effective financial markets regulation. A good example of such an initiative is the IOSCO-OECD Core Competencies Framework on financial education. The Fund, in collaboration with other IFIs, should therefore encourage and promote initiatives designed to achieve better financial behaviors among people.