Basel Committee work on crypto-assets

World Bank Financial Sector Advisory Center conference on fintech
23 May 2019, Vienna
Basel Committee work on crypto-assets

1) High-level supervisory expectations

2) Quantification of banks’ exposures to crypto-assets

3) Potential specification / clarification of prudential treatment
Basel Committee work on crypto-assets

1) High-level supervisory expectations

2) Quantification of banks’ exposures to crypto-assets

3) Potential specification / clarification of prudential treatment
High-level supervisory expectations

- BCBS newsletter published 13 March 2019

- Crypto-assets do not reliably provide standard functions of money

- Crypto-assets present a number of risks for banks
  - Liquidity risk
  - Credit risk
  - Market risk
  - Operational risk (including fraud and cyber risks)
  - Money laundering and terrorist financing risk
  - Legal and reputation risk
High-level supervisory expectations

- Expectations for banks that are authorised and decide to acquire crypto-asset exposures or provide related services

- **Due diligence**: comprehensive analysis of risks

- **Governance and risk management**: Clear and robust framework, including oversight by board and senior management

- **Disclosure**: material exposures should be disclosed and accounting treatment specified

- **Supervisory dialogue**: inform supervisor of actual and planned exposures in timely manner
Basel Committee work on crypto-assets

1) High-level supervisory expectations

2) Quantification of banks’ exposures to crypto-assets

3) Potential specification / clarification of prudential treatment
Quantifying banks’ exposures to crypto-assets

- Examples of potential direct and indirect exposure channels:
  - Outright holdings
  - Lending to individuals / corporates / financial institutions that invest in crypto-assets
  - Crypto-asset collateral
  - Lending to entities dealing directly with crypto-assets (eg exchanges)
  - Proprietary trading
  - Trading on client accounts
  - Clearing of crypto-asset futures / derivatives
  - Underwriting initial coin offerings
  - Providing custody / wallet services for crypto-assets
  - Provision of insurance against theft/loss of crypto-assets
  - Use of crypto-assets for internal / inter-bank operational processes
Quantifying banks’ exposures to crypto-assets

- BCBS collecting data based as part of end-2018 Basel III monitoring exercises
- Results to be discussed by the BCBS at its meeting in October 2019.
Basel Committee work on crypto-assets

1) High-level supervisory expectations

2) Quantification of banks’ exposures to crypto-assets

3) Potential specification / clarification of prudential treatment
Prudential treatment of crypto-assets

- Current Basel framework does not set out explicit treatment of banks’ exposures to crypto-assets

- Stocktake among BCBS members on how such exposures treated domestically

- Consider whether to formally clarify prudential treatment of crypto-assets
  - Credit risk
  - Counterparty credit risk
  - Market risk
  - Liquidity risk
Questions?