
**EACH response to the CPMI-IOSCO
consultative report “Application of the
Principles for Financial Market
Infrastructures to stablecoin
arrangements”**

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Introduction

The European Association of CCP Clearing Houses (EACH) represents the interests of Central Counterparties (CCPs) in Europe since 1992. CCPs are financial market infrastructures that significantly contribute to safer, more efficient and transparent global financial markets. EACH currently has 19 members from 15 different European countries. EACH is registered in the European Union Transparency Register with number 36897011311-96.

EACH appreciates the opportunity to provide feedback to the CPMI-IOSCO consultation "Application of the Principles for Financial Market Infrastructures to stablecoin arrangements" (hereinafter called "The consultation").

Applicability of the PFMI to SAs

Q1: Is it clear when SAs are considered FMIs for the purposes of applying the PFMI?

Yes, EACH believes that it is clear when SAs are considered FMIs for the purposes of applying the PFMI.

Considerations for determining the systemic importance of an SA

Q2: Are the suggested considerations for determining the systemic importance of SAs clear, comprehensive and useful? Are there any risks or considerations missing?

Yes, EACH is of the opinion that the considerations are clear, comprehensive and useful. However, we believe that some further thought may be beneficial to assess the benefits of enhanced international coordination with common objectives to ensure financial stability.

Governance

Q3: Is the guidance provided on governance clear and actionable to inform how SAs will need to ensure clear and direct lines of accountability and set up governance arrangements to observe the PFMI?

Yes, EACH is of the opinion that the guidance provided on governance is clear concerning how SAs will need to ensure clear and direct lines of accountability and set up governance arrangements to observe the PFMI whilst maintaining a technology neutral approach.

Q4: What are the challenges that SAs may face due to the use of distributed and/or automated technology protocols and decentralisation, when seeking to observe

Principle 2 on governance, in particular when ensuring the clear allocation of responsibility and accountability?

EACH Members see the trend of "Decentralised Finance" (DeFi) emerging with financial products built on DLT networks, often on public blockchains. These pure peer-to-peer layers offer their financial services to (retail-) clients without a central intermediary implying certain rules automatically on the basis of programmed smart contracts. It is to be noted that, although this might bring innovation to financial products, the concept is new and attracting growing interest. We believe it will be important to ensure investor protection according to a "same services, same risks, same rules" principle, as would be the case with "traditional" financial services. Even in such a DeFi space there would still be a necessity to ensure appropriate governance arrangements are embedded with clear accountability and compliance arrangements. The existing measures which support investor protection, such as KYC, AML, Market Oversight, etc. are still pertinent in these environments, which means that accountability and arguably neutrality would remain a necessary feature regardless of the structure of the operator/service. This could suggest there could be benefits of operating private systems which may simplify operating these protective measures, but that should not exclude other solutions which achieve the desired levels of protection. Competent Authorities should, in our opinion, have clear lines of accountability towards the operators of such services, and were services distributed outside the jurisdiction of the home Authority there should be clear oversight arrangements in place to ensure investor protections are not diluted.

Interdependencies

Q5: Is the guidance on Principle 3 clear and actionable to inform how SAs will need to comprehensively manage risks from other SA functions and entities and their interdependencies?

Yes, EACH Members believe that the guidance on Principle 3 is clear and actionable in this regard.

Settlement finality

Q6: Is the guidance on Principle 8 on settlement finality clear and actionable to inform how SAs will need to manage risks arising from a misalignment between technical and legal finality?

Yes, EACH believes that the guidance on Principle 8 on settlement finality is clear on how SAs will need to manage risks arising from a misalignment between technical and legal finality. As the product expands, there may be benefit in assessing if further clarification or specific arrangements may be necessary in this area to ensure the principles are not diluted.

In addition, the second bullet point of paragraph 3.4.5¹ should, in our opinion, focus on the fact that a systemically important SA should have in place proper risk management procedures, rather than focussing on the measures to address potential losses. In this context, as also referenced above concerning Question 4 on Governance, it is to be noted that the possibility of a "forking event" might not be inherent to every decentralised model and might as well be excluded for certain private architectures. Similarly, the consequences of a "forking event" may vary depending on the consensus mechanism of the underlying technology. Also, depending on the same variables, misalignments may be attributable to different causes and/or to the responsibility of the different actors involved. Most notably, in some instances there might be a misalignment, however with no ensuing losses for participants and the system operator (e.g. in cases where risk controls promptly address the issue and prevent it from generating undue losses). We therefore believe that the focus should firstly be rather on the need to set up appropriate risk management procedures and risk control mechanisms, aimed at pre-emptively avoiding the potential emergence of undue risks of misalignment. These presidiums should be structured in light of the specificities of the given technology and related consensus mechanisms.

Money settlements

Q7: Is the guidance on Principle 9 on money settlements clear and actionable to inform how SAs will need to manage risks associated with the use of a stablecoin as a settlement asset? In particular, is the guidance clear on the considerations which an SA should take into account when choosing a stablecoin as a settlement asset with little or no credit or liquidity risk as an appropriate alternative to central bank money?

EACH Members are of the opinion that the operator must ensure that the risks of holding alternative assets have suitable prudential frameworks and are adequately managed and communicated to consumers.

General

Q8: Are there other issues or principles of the PFMI where additional guidance for SAs would be useful? If so, what is the issue identified and how is it notable for SAs?

EACH Members would appreciate receiving clarification on whether the proposed Guidance will also apply to those FMIs that in the future may want to implement Principle 8 of the PFMI in a DLT context. We also would like to kindly suggest considering the application of PFMI

¹ [...] ensure proper transparency regarding mechanisms for reconciling the misalignment between technical settlement and legal finality and have measures in place to address the potential losses that could be created in case of reversal stemming from the misalignment between technical settlement and legal finality.

Principle 23 on disclosure of rules, key procedures and market data² to better understand the nature, risk etc. of SA services, and ensure transparency in this rapidly growing segment.

² *An FMI should have clear and comprehensive rules and procedures and should provide sufficient information to enable participants to have an accurate understanding of the risks, fees, and other material costs they incur by participating in the FMI. All relevant rules and key procedures should be publicly disclosed.* (<https://www.bis.org/cpmi/publ/d101a.pdf>)