
EACH Response to the IOSCO Consultation on Policy Recommendations for Decentralized Finance (DeFi)

October 2023

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 IOSCO consultation report on Policy Recommendations for Decentralized Finance (DeFi)¹.

Questions

1. Do you agree with the Recommendations and guidance in this Report? Are there others that should be included?

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 is still the need 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. We would caution that the use of public permissionless blockchains/DLTs is being restricted. It is comparable to the internet, which is also open and publicly available but depends on the applications/services offered based on it. The same is true for public blockchains – TradFi companies may use the public DLTs just as they use the internet as they bring innovation; it is more important to ensure that the services offered based on it are safe and serve the investors.

Competent Authorities should, in our opinion, have clear lines of accountability towards the operators of such services, and for services distributed outside the jurisdiction of the home Authority there should be clear oversight arrangements in place to ensure investor protections are not diluted.

¹ <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD744.pdf>