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Editors

Renita D'Souza
Shruti Jain
Preeti Lourdes John

Durham University

WILEY

The G20 Finance Agenda for Crypto Assets in 2023

Ussal Sahbaz

The G20's first mention of the term crypto assets was at the Buenos Aires Summit in 2018 (1), with a focus on anti-money laundering efforts: "We will regulate crypto-assets for anti-money laundering and countering the financing of terrorism in line with FATF [Financial Action Task Force] standards and we will consider other responses as needed." At the Osaka Summit in 2019, the G20 leaders said, "While crypto-assets do not pose a threat to global financial stability at this point, we are closely monitoring developments and remain vigilant to existing and emerging risks" (2). As a next step, the leaders asked the Financial Stability Board (FSB), the premier international coordination body on global financial stability, to monitor the potential financial stability risks, which resulted in the FSB's 2018 report on the global 'stablecoins' (3). At the Riyadh Summit in 2021, partly as a response to Facebook's declaration to issue a global stablecoin named Libra, the G20 leaders gave a sharp reaction: "No so-called 'global stablecoins' should commence operation until all relevant legal, regulatory and oversight requirements are adequately addressed through appropriate design and by adhering to applicable standards" (4). Later, Facebook backstepped from Libra and stopped the project (5).

Under the Indonesian presidency in 2022, crypto assets have made a comeback to the G20 agenda, this time with a focus on general regulations. This is partly due to a hike in crypto-asset prices in 2021 and then their collapse in early 2022. At its peak, the global total value of crypto assets reached US$3 trillion,

with widespread adoption worldwide (6). Many advanced G20 economies started to discuss and implement national regulations on crypto assets. Emerging G20 economies have been concerned about the risk of 'cryptoisation', or the risk of a significant portion of financial assets turning into crypto assets due to macroeconomic inflationary risks (7). They regard this as a type of capital outflow that may ultimately limit the macroeconomic policymaking power. In 2023, for the first time in the grouping's history, the G20 Troika (consisting of the past, current, and incoming presidencies) will include three emerging economies—Indonesia, India, and Brazil. Given their concerns, the G20 is likely to place the regulation of crypto assets as a priority within the International Finance Working Group. Crypto assets are also relevant for some existing G20 priorities under the finance track, including financial inclusion and the facilitation of cross-border payments. One of the potential use cases for crypto assets is remittance payments, of which India is the largest recipient globally.

Four key outputs of FSB's work on global regulation of crypto assets

The G20 work on crypto assets started with a comprehensive study by the FSB. The FSB's approach to crypto-asset regulation is to ensure the risks to the global financial system are controlled. In October 2022, the FSB issued the International Regulation of Crypto-asset Activities report (8), which was discussed at the subsequent Finance Ministers and Central Bank Governors Meeting in Washington DC. The meeting welcomed "the FSB's proposed approach for establishing a comprehensive international framework for the regulation of crypto-asset activities based on the principle of 'same activity, same risk, same regulation'…. It is critical to build public awareness of risks, to strengthen regulatory outcomes and to support a level playing field, while harnessing the benefits of innovation" (9). The future work stream on the regulation of crypto assets is likely to be based on the FSB report.

The FSB report makes four key observations. First, crypto assets are too small to pose a risk to the global financial system. When the crypto markets crashed this winter, it had a limited impact on the overall financial system. However, the picture may evolve as the markets continue to grow. For now, it is necessary not to rush to regulate the crypto-asset markets in the short run (the FSB's proposed timeline extends to 2025), but it is essential to get prepared.

Second, the "weakest link" in crypto

assets is stablecoins. Stablecoins are pegged to national currencies such as the US dollar and the euro. However, it is unclear whether some stablecoins have adequate cash equivalents. During the market volatility in November 2021, when Tether could not properly display its reserves, the markets were shaken. The FSB has already published a report on this and continues to draw attention to the priority of the issue (10).

Third, crypto-asset exchanges can perform multiple functions that reduce transparency and increase the risk in the markets. There is nothing wrong with this; banks also carry out different tasks, but they do so within a set of governance regulations. For instance, the FSB report scrutinises the activities of the Bitfinex exchange, which tried to protect the value of Tether to prevent a major economic loss as a Tether holder at the time of the crisis. The FSB suggests that further transparency is needed to prevent manipulation in the markets.

Fourth, crypto assets are global, but regulations are local. Therefore, there are tremendous "regulatory arbitrage" opportunities for crypto-asset service providers. This is why it is beneficial to make crypto asset regulations with a global consensus. In this respect, what role the G20 will play is important.

Four gaps in global crypto asset regulatory dialogue that the G20 should narrow

The discussions around the regulation of crypto assets are complex and characterised by four major gaps:

Information gap between the crypto-asset industry and policymakers: Policymakers have a limited understanding of the fast-evolving blockchain technology, partly due to resource constraints (11) and partly due to institutional inertia. On the other hand, most crypto innovators are relatively young and made significant financial returns during the recent market boom. As the crypto industry evolved out of the traditional financial services industry, even as a cyber-punk alternative to the established structures, the dialogue between the industry and regulators has been limited. Generational, technical, and ideological gaps remain large.

Prioritisation gap between political and regulatory stakeholders: While regulators around the world are inclined to 'minimise the risk', politicians have a primary objective of 'maximising the popular support'. As a result, political decision-makers around the world are more supportive of crypto assets as opposed to the risk-averse and restrictive approaches of many regulators. A recent example is Russia. The Duma has pushed

forward a crypto asset bill despite a white paper published by the Central Bank for a comprehensive ban on crypto assets (12).

Disruptive gap between traditional financial institutions and the crypto-asset industry: Banks and other traditional financial institutions have been relatively slow to adopt crypto assets or decentralised finance in general, partly due to their institutional structures and present regulatory obstacles. They have also been reactionary in the regulatory dialogue. This paves the way for a blanket push against the entire crypto asset industry while increasing the risks for the global economy.

Regulatory gap between advanced, emerging, and small economies (13): Advanced economies are leading innovators in blockchain technology. They are also setting the standards in crypto-asset regulations. The most prominent examples are MiCa in the European Union (EU), which is now at the final draft stage. There are also ongoing regulation efforts within EU member states and Japan. Emerging economies have mostly been reactionary vis-à-vis crypto assets due to macroeconomic risk concerns stemming from cryptoisation. Meanwhile, certain small states, most importantly Singapore and the UAE, adopt relatively liberal regulations and attract global crypto asset exchanges. While headquartered in these areas, the global exchanges serve users in other jurisdictions. As a result of regulatory arbitrage opportunities, these jurisdictions may have an impact on the global regulatory environment that is disproportionate to the sizes of their economies and populations. Indeed, some of the small jurisdictions that act as crypto-asset hubs, such as Singapore, also participate in the G20 as permanent guests.

These four gaps require five types of stakeholders to sit around the same table—political decision-makers, regulators, banks, other relevant traditional financial institutions, and the crypto-asset exchanges.

Crypto-asset exchanges are the link between the traditional financial system and crypto-asset ecosystem. In most cases, they are the main agents to be regulated. Thanks to the effective dialogue within the G20, the B20's finance task force has also brought together traditional financial institutions and advanced regulatory agendas from the Basel III regulations to climate finance for many years. Now that the regulation of crypto assets is a G20 priority, it is time to invite the crypto-asset exchanges to the table to take the policy dialogue to the next level. The G20 should work closely with the B20 on the regulation of crypto assets.

A crypto asset regulatory agenda for the G20

The regulation of crypto assets covers a wide range of topics. The G20 will need a prioritisation strategy to focus on the issues that are the most relevant for a multilateral discussion. The G20 may take a three-layered prioritisation strategy (see Table 1).

The first layer with the utmost priority includes issues that have long been prioritised by the G20 and the international community—stablecoins and anti-money laundering. In October 2022, the G20 Finance Ministers and the Central Bank Governors reaffirmed their "commitment to delivering the strategic priorities of the Financial Action Task Force (FATF) and its FATF Style Regional Bodies to lead global action to respond to these threats. We welcome the initiative by the FATF to promote the implementation of international standards on virtual assets, in particular, the "travel rule", and transparency of beneficial ownership, and acknowledge their role in the fight against systemic corruption and environmental crimes, which gravely impact economies and societies" (14). The most important discussion will be around the most efficient ways in which the travel rule can be applied to blockchain technology, and the feasibility of national regulators setting standards higher than the FATF travel rule in a truly global crypto-asset economy.

The second layer that should be included in the G20's focus includes issues that concern national regulations by their nature. Even so, global coordination is essential to avoid regulatory arbitrage

Table 1: Crypto asset regulatory issues and relevance for the G20

Issues	Priority for the G20		
	High	Medium	Low
Stablecoins (global and national currency-backed)	1		
Anti-money laundering	1		
Licensing and authorisation for exchanges		1	
Safe keeping and custody		1	
Capital, liquidity, and resilience		1	
Governance and conflicts		1	
Risk and resilience (including cyber risks)		1	
Supervisory powers			1
Market integrity			1
Consumer protection and marketing			1

Source: Author's analysis

and ensure an efficient crypto-asset market. This includes licensing and authorisation for exchanges, safekeeping, and custody of crypto assets; capital and liquidity requirements; and governance and conflict management standards and resilience policies (including cybersecurity).

The last layer, which can be excluded from the G20 discussion for now, includes issues that are predominantly national and have limited global relevance, such as supervisory powers of the regulators, regulations related to market integrity (manipulation, insider trading, and so on), and consumer protection and marketing regulations.

Conclusion

While crypto assets are too small to pose a risk to the global financial system right now, regulations should be developed, in a timely but cautious manner. Current regulatory discussions are mostly focused on crypto-asset exchanges as subjects because they are the link between the crypto ecosystem and the traditional financial ecosystem. The G20 is an ideal venue for these discussions because crypto assets are global, but regulations are local, and there is always opportunity for regulatory arbitrage.

The G20 (in dialogue with the B20) must bring together political leaders, regulators, and traditional financial institutions of its member countries. Crypto-asset ecosystem players, especially global and major local exchanges, should be added to this dialogue through the B20. It is not possible to cover all regulatory issues pertaining to crypto assets in this dialogue, nor is it necessary. The priority should be stablecoins and anti-money laundering issues, which have already been on the G20 agenda, and which focus on truly global risks. Then the focus should be issues that require global coordination to avoid regulatory arbitrage. Other issues should be left to national policymakers.

In the October 2022 meeting, the G20 Finance Ministers and Central Bank Governors have already signalled a technology-neutral regulatory framework based on the motto 'same activity, same risk, same regulation' (15). Given the dynamic and innovative nature of blockchain technology, the regulatory framework that the G20 envisages should be sufficiently flexible, risk-based, proportionate, and not too detailed. A new global regulatory architecture for crypto assets should provide the right balance between innovation and financial stability, the priorities of advanced and emerging G20 economies, and the interests of traditional and disruptive financial institutions and their users.

Endnotes

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