Executive summary – Joint response from Banque de France and Autorité de contrôle prudentiel et de résolution (ACPR) to the European Commission's consultation on an EU framework for markets in crypto-assets

The Banque de France and the ACPR welcome the European Commission's public consultation on an EU framework for markets in crypto-assets. This note summarizes our response, putting forward a few general remarks (1.) and highlighting its main features (2.).

1.   General remarks

The emergence of so-called "stablecoins" has brought additional fuel to the debate opened by the growing number and forms of crypto-assets in the financial landscape. It is undeniably hard to anticipate the role that stablecoins and more generally crypto-assets might play in the "financial system of the future" (with a particular attention given to payment and settlement systems), especially since their features are evolutive by nature.

In any case, while it is clear that crypto assets bring about opportunities to improve the existing payment landscape, they have unique financial, monetary and technical features which set them apart from the currencies and payment instruments issued by financial institutions and central banks and therefore carry material risks of various nature (including legal, financial, operational and compliance risk with money laundering and terrorist financing, consumer and investor protection) which must be addressed appropriately. From that perspective, **stablecoins of potential large size and reach may pose additional challenges of system-wide importance, to competition policy, financial and monetary stability**.

Public authorities shall contemplate their potential virtues and risks, with a view to adapt the regulatory and oversight frameworks accordingly. **We must fulfill our duty to find solutions to the risks by applying the highest standards of security and resilience, while preserving the potential for technological innovation.**

Considering the high degree of integration of the financial sector in Europe, leading a reflection and foreseeing a possible action at the level of the European Union on this matter is definitely appropriate. **The European Union will have to coordinate its intervention with the decisions and recommendations made at the international level (G20, G7, FSB, BIS, IOSCO, FATF…)**. We encourage our European colleagues to keep on participating actively in those international discussions. In particular, we must push to (i) **minimize regulatory arbitrage**, which requires that all jurisdictions across the world have a common regulatory approach targeting the mitigation of identified risks, and (ii) **define the conditions for cooperation and coordination between regulators**.

As a last general remark, to fulfil their financial stability mandate and conduct efficient monetary policies, **central banks shall develop an in-depth understanding of innovations currently spreading through the financial sector and may contribute directly further, notably in revisiting and possibly adapting the conditions under which they make central bank money available for settlement purposes**. It is in this perspective that the Banque de France has opened on March 27 a call for applications to experiment the issuance of a central bank digital currency for interbank settlement purposes.

2. Main features of the response to the European Commission's consultation

First, the Banque de France and the ACPR consider there is a need for a proper classification of crypto-assets, including stablecoins and global stablecoins, in order to provide the European legal framework with a clear legal qualification. Such a classification should help when relevant to distinguish crypto-assets from financial instruments and electronic money, by creating new categories of assets (i.e. utility tokens, payment tokens, stablecoins etc.) depending on their economic function (voting right, right to use, means of payment etc.), which would allow to address properly the risks they individually imply.

Second, the Banque de France and the ACPR favor, at the European level, the set-up of a dedicated regulatory regime solely composed of adequate mandatory requirements, whatever the function and systemic feature of the crypto assets concerned be, by contrast to an approach that would only impose minimal mandatory requirements and give an optional visa for a large number of services. Such an approach would avoid the emergence of possibly very different regulatory regimes within the European internal market, which would contradict the objectives of a more integrated financial market in the European Union, and of a level playing field between EU Member States and their respective financial centers. Furthermore, a regulatory regime would prevent financial risks materializing by applying optional requirements for institutions established outside the EU but acting on the European market.

Thirdly and lastly, the Banque de France and the ACPR reiterate the importance for crypto-assets to respect the CPMI-IOSCO Principles for Financial Market Infrastructures (PFMIs), especially the recommendation to use central bank money as settlement asset for interbank exchanges. The Banque de France, as a central bank missioned to preserve financial stability, utterly **oppose any suggestion to experiment the settlement of listed securities with commercial bank money on a blockchain**. Such an experimentation would disregard the PFMIs and the provisions of the Central Securities Depositories Regulation (CSDR), a legal framework which has been set up in response to the 2007-2008 financial crisis. And it would furthermore be in contradiction with Target2 Securities (T2S), a genuinely European project which permitted to harmonize settlement procedures while using central bank money for the settlement of listed securities. While we acknowledge that the European Union shall adopt a technology neutral and innovation friendly regulatory regime, those fundamental principles must be fully respected if we want to ensure financial stability and the good functioning of payment systems.