

## G7 AND G20 REPORTS ON STABLECOINS

### Lessons and opportunities for industry players

On 18 October 2019, the G7<sup>1</sup> and the Financial Stability Board (FSB)<sup>2</sup> respectively published their first analyses of projects aiming to launch digital tokens with a relatively stable value, also called “stablecoins”<sup>3</sup>. The interest in these new instruments demonstrates that **international authorities are recognising their existence** and hope to anticipate their development outside of any adapted regulatory framework.

The first conclusions of the G7 and FSB reports are clear: considering the potential risks that **innovative projects enabling simplified international payments** are placing on the **monetary policy, the financial stability and integrity of the markets**, these initiatives will only be able to develop if they strictly comply with all the applicable international rules and standards.

The standards in question are not restricted to anti-money laundering and combating the financing of terrorism (AML-CFT). On the one hand, the G7 insisted on respecting (i) standards in terms of **operational resilience and cybersecurity**; (ii) rules ensuring the **protection of data**; and (iii) those pertaining to the **protection of consumers and investors**. On the other, the FSB report announced future works to facilitate the emergence of regulatory and supervisory approaches suited to these global projects.



*"We agree that no global stablecoin project should begin operation until the legal, regulatory and oversight challenges and risks are adequately addressed, through appropriate designs and by adhering to regulation that is clear and proportionate to the risks. Beyond regulation, the preservation of public prerogatives or core elements of monetary sovereignty will have to be taken into account".<sup>4</sup>*

### Background elements: work carried out by central banks and finance ministers of G7 and G20 countries

- ◆ Following the announcement of the LIBRA project, **the G7**, under French presidency, initiated in the summer of 2019 an *ad hoc* workgroup on stablecoins chaired by **Benoit Coeuré** (member of the ECB board). This group had a dual assignment. The first consisted in analysing the risks inherent to this type of project that, considering their worldwide nature, could represent a systemic hazard; the second consisted in identifying potential shortfalls in terms of regulation and supervision in order to limit regulatory arbitrage possibilities. The report, published on 18 October 2019, was presented during the annual meetings of the IMF and the World Bank in October 2019, and followed by an official statement by the heads of the G7.
- ◆ The FSB (and the **G20**, of which it is an offshoot) also took up the subject in the summer of 2019 considering its potential impacts on the current operation of the international financial system. At the Osaka Summit of June 2019, G20 leaders encouraged the FSB, as well as relevant international standard-setters (including the FATF<sup>5</sup>), to continue its investigations<sup>6</sup>. The October 2019 progress report announces the **conduct of an inventory of the various national regulatory and supervisory approaches** in order to (i) identify gaps

<sup>1</sup> G7 Working Group on stablecoins, "[Investigating the impact of global stablecoins](#)", October 2019.

<sup>2</sup> FSB, "[Regulatory issues of stablecoins](#)", October 2019.

<sup>3</sup> Excerpt of the FSB report: "A stablecoin can be defined as a crypto-asset designed to maintain a stable value relative to another asset (typically a unit of currency or commodity) or a basket of assets. These may be collateralised by fiat currency or commodities, or supported by algorithms. The term is used to describe a particular set of crypto-assets with certain design characteristics or stated objectives, but the use of this term should not be construed as any endorsement or legal guarantee of the value or stability of these tokens" p.1.

<sup>4</sup> [Official statement on stablecoins by G7 heads](#), 17 October 2019.

<sup>5</sup> Financial Action Task Force.

<sup>6</sup> [Excerpt of the G20 statement, Osaka Summit](#) (June 2019): "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. We welcome on-going work by the Financial Stability Board (FSB) and other standard setting bodies and ask them to advise on additional multilateral responses as needed".

and/or deficiencies in national approaches and (ii) work towards the development of possible multilateral solutions

### Main risks identified by the G7

- ◆ The G7 report confirms the **reticence of central banks and governments vis-à-vis private initiatives aiming to facilitate cross-border payments**. Such reticence is justified by (i) the broad spectrum of certain projects, and (ii) their associated risks.
- ◆ The G7 report is targeting **global stablecoin** projects, i.e. stablecoin projects that may have a quick and massive uptake given the prior existence of an acquired client base (which is precisely the case of LIBRA). These global stablecoins, with their global reach, may potentially affect the stability of the international financial system. Since they aim to store values and be used as a means of international exchange, they could also come to **substitute traditional currencies** and thereby constitute **a danger for the sovereignty of monetary policies**.
- ◆ The report also highlights the concerns raised by these projects with regard to **compliance with competition and anti-trust rules**. It calls for increased vigilance by supervisory authorities on anti-competitive practices, abuses of dominant position, **market concentration** (in particular due to the network effect or the use of proprietary systems), and the emergence of oligopolies and monopolies.

### Main focus points for players as per the G7 report

- ◆ **Clear legal qualification: an essential prerequisite to launch a stablecoin project**

The G7 states that all stablecoin projects (regardless of their size) **must have a solid and secure legal basis**.

*"A stablecoin must be underpinned by clear legal terms that define and govern, with certainty and predictability, material aspects of how the underlying technical arrangements are utilised by parties".<sup>7</sup>*

- ◆ **Solid governance**

The G7 states that all stablecoin projects must come with a solid governance mechanism that guarantees the safety and efficiency of payments or the execution of stablecoin-related services.

*"Sound and efficient governance promotes the safety and efficiency of payments and related services. The governance structure of the arrangement must also be clearly defined and conveyed to all ecosystem participants".<sup>8</sup>*

- ◆ **Applicability of international AML/CFT standards**

The G7 states that the FATF international standards applicable to "virtual assets" must apply to stablecoin projects and to stablecoin providers. Supervisory authorities shall check that this is indeed the case.

*"[...] providers of stablecoins and other entities that are part of a stablecoin ecosystem should comply with the highest international standards for AML/CFT and countering the financing of the proliferation of weapons of mass destruction".<sup>9</sup>*

- ◆ **Applicability of international standards ensuring the safety, efficiency and integrity of payment services**

The G7 states that stablecoins, if they effectively aim to ease payment activities, must comply with international standards in the field.

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<sup>7</sup> G7 report, p.5.

<sup>8</sup> Ibid. p.6.

<sup>9</sup> Ibid. p.6.

*"Stablecoin arrangements are expected to meet the same criteria and abide by the same requirements as traditional payment systems, payment schemes or providers of payment services (i.e. same activities, same risks, same regulations). Innovation should support interoperability and seek to mitigate systemic interdependencies".<sup>10</sup>*

- ◆ **Necessary implementation of mechanisms that ensure the operational resilience and cybersecurity of stablecoin projects**

The G7 report states that the public supervisory authorities shall demand the implementation of tailored procedures and checks to ensure the resilience and cybersecurity of stablecoin projects.

*"Stablecoins may be subject to laws, regulations and guidance, and may also fall within the scope of international standards on operational risk".<sup>11</sup>*

- ◆ **Respect of rules applicable as regards data protection**

The G7 highlights the need to guarantee the protection of personal data in stablecoin projects and to ensure the protection of consumer rights (e.g. right of withdrawal and right to forget).

*"Authorities will apply appropriate data privacy and protection rules to stablecoin operators, including how data will be used by the participants in the ecosystem and shared between the participants and/or with third parties".<sup>12</sup>*

### Next steps for stablecoin players: a unique opportunity to discuss with international institutions and regulatory authorities and to put forward proposals

- ◆ **FSB** - Upcoming workstream aiming at mapping national regulatory approaches with a view to developing possible recommendations (e.g. multilateral solutions).
  - ⇒ **The FSB will consult stakeholders** (roundtables, interviews, etc.).
- ◆ **International standard-setters** (Basel Committee, CPMI<sup>13</sup> and IOSCO<sup>14</sup>) - Ongoing work to (i) adapt existing standards and (ii) draft new standards.
  - ⇒ **Window of opportunity to present ongoing stablecoin projects, objectives, and related regulatory implications.**
- ◆ **EU level & nationally** - Foster a constructive dialogue with supervisory authorities and governments
  - ⇒ **Promote to public authorities solid stablecoin projects that can position France as a pioneering jurisdiction in Europe.**
  - ⇒ **Feed public authorities on the necessary regulatory changes for the viable and long-lasting development of innovative stablecoin projects, all the while upholding the stability of the financial system and the protection of potential consumers.**
- ◆ **EU level & nationally** - Ongoing discussions on the development of central digital currencies
  - ⇒ **Contribute to ongoing discussions on the implementation of central digital currencies (e.g. cooperation between public institutions and the private sector).**

<sup>10</sup> Ibid. p.8.

<sup>11</sup> Ibid. p.8.

<sup>12</sup> Ibid. p.10.

<sup>13</sup> Committee on Payments and Market Infrastructures (CPMI).

<sup>14</sup> International Organization of Securities Commissions (IOSCO).

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