Summary of Conclusions for Policymakers and Regulators

- **Regulation needs to be harmonized.**

  Given the inherently cross-border and decentralized nature of blockchain processes, regulators must find ways to harmonize regulatory frameworks at an international level and agree on definitions and supervisory programs that take account of the specific nature of cryptoasset services. The objective should be to minimize regulatory uncertainty due to potential market fragmentation.

- **Whether cryptoassets are securities needs to be determined.**

  It will be critical to definitively state whether cryptoassets qualify as securities, other forms of financial instruments, commodities, or currencies and to harmonize this definition at an international level. CFA Institute believes that several cryptoassets would meet the definition of securities under US securities laws, for example, while this debate is also taking place in the European Union in regard to MiFID II. There is a risk that confusion on this point will cause regulatory and legal uncertainty across jurisdictions. We would also argue against designing new extensive regulation as a simplistic response to the challenge of classifying cryptoassets as securities (or commodities), which is the primary question that should be answered as a priority.

- **Regulation should be technology neutral.**

  Regulation on cryptoassets and digital finance should remain technology neutral. Regulators should not adjudicate which technological developments or orientations offer markets, investors, and consumers the most benefit. Nor, however, should regulators lower the bar on investor protections just because a technology is new.

- **Stablecoins should be regulated for systemic risk potential.**

  Stablecoins, one subset of cryptoassets, should be properly regulated both from a prudential standpoint and a business conduct or investor protection standpoint because they bear properties that are similar in some respects to money market instruments. The method used to maintain the peg should be scrutinized and their collateral verified independently. These instruments create ties with and ramifications for traditional financial markets in ways that suggest they may represent systemic risk to financial stability if left improperly supervised.

- **Cryptoasset services need to be categorized and their business conduct regulated.**

  Cryptoasset-related services should be identified and properly regulated according to the risks they represent to investors and participants. This means clarifying the activity scope of crypto exchanges and determining which regulatory framework they fall under, taking into consideration the discretionary or nondiscretionary nature of their operations. It also means defining a proper regulatory framework for decentralized finance (DeFi) activities related to lending and borrowing activities. One litmus test for regulation should be the intention of participants when they enter the market. If they expect a return from their engagement, in whatever form, this should be sufficient to assume that a principal–agent relationship is involved, which requires proper regulation.

- **The competition level needs to be monitored to avoid undue consolidation.**

  Regulators should monitor the cryptoasset market to ensure that it remains driven by sound competition forces. The inherent technical nature of cryptoassets suggests that specific firms may benefit from a technology and information advantage. Regulators should establish monitoring programs with a specific focus on costs, fees, and business practices related to investor or consumer protection. The potential for consolidation should not result in the establishment of a new value chain working essentially in the interest of a selection of technologically advanced companies.

- **Market abuse risks need to be monitored and controlled.**

  The same technology and information advantages can also result in potential market abuse (e.g., front running, insider dealing). Regulators should harness advanced forms of data science to monitor such activity to maintain market integrity. The inherently fragmented nature of the cryptoasset market will require the regulatory community to establish information-sharing mechanisms to ensure a coherent and comprehensive understanding of transactions in this market.

- **Financial risk buildup in the DeFi sector needs to be monitored and measured.**

  Depending on the pace of the development of DeFi services based on lending and borrowing, regulators should develop appropriate metrics to measure and quantify the buildup of risk in this sector of the economy. It is possible this activity will require prudential measures similar to those related to financial institutions for their securities lending business dealings.

- **Custody of cryptoassets needs to be regulated and secure.**

  Policymakers should place a high priority on enacting a framework of laws and regulations to ensure the safe custody and safekeeping of customers'

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cryptoassets. The key principle should be that crypto platforms and firms should not be allowed to use customer assets to fund their own businesses. Customer assets should be segregated and protected even if the platform or firm becomes bankrupt. These principles are consistent with that developed by the International Organization of Securities Commissions (IOSCO) and the Committee on Payments and Market Infrastructures (CPMI) on central securities depositories. To achieve the right solutions, policymakers and regulators will need to consider the specific nature of digital assets, including questions related to IT security, access control, and the various forms of storage that are possible.