

## ***Applying and Adapting IOSCO Principles to Digital Asset Markets,***

remarks by the IOSCO Fintech Task Force Chair Tuang Lee, Assistant Managing Director of Capital Markets at the Monetary Authority of Singapore at Singapore Fintech Festival, 2 November

### **Introduction and background to digital assets**

A warm welcome and good afternoon to all of you attending this IOSCO regulatory panel session today. I am Tuang Lee, Assistant Managing Director of Capital Markets at the Monetary Authority of Singapore. I am also Chair of IOSCO's Fintech Task Force. Today, I speak in the capacity of my IOSCO role.

As the title of this panel suggests, I will be talking about "Applying and Adapting IOSCO Principles to Digital Assets Markets". Before that, let me share some background on digital assets and why is IOSCO looking into this space.

Given where I am standing right now, at this very event, I think many of you in the audience are familiar with digital assets. These refer to anything of value whose ownership is represented in a digital or computerised form, through a process called tokenisation. Broadly speaking, digital assets can refer to anything, including real assets like artwork and property, but today our primary focus is on crypto-assets and DeFi.

A mere one year ago from today, crypto-assets peaked at just over \$3 trillion, but today about two-thirds of that value has been digitally erased and some are calling this a "crypto winter".

This does not mean that crypto-assets are a thing of the past.

While it is a good thing that some of that speculative fervour has died down, we know from the news, that the lines between the crypto-asset ecosystem, and the traditional financial system are starting to blur. Case in point – Bank of New York Mellon has launched a Digital Asset Custody platform, allowing select clients to hold and transfer Bitcoin and Ether. Brokers in the traditional financial markets, like Robinhood, are now allowing customers to also trade crypto-assets.

### **International scrutiny**

On a global level, the International Monetary Fund (IMF) and the Financial Stability Board (FSB) are calling for more regulation of this sector. The FSB recently published, on 11 October 2022, two consultation papers on the international regulation, supervision and oversight of crypto-assets activities and markets – from a financial stability perspective.

While the FSB is coordinating the financial stability agenda, IOSCO has the mandate and a clear [roadmap](#) to explore investor protection and market integrity issues in financial markets.

We also have a systemic risk objective, which we are pursuing through the FSB's financial stability agenda.

## **Role of IOSCO Fintech Task Force**

As the global standard setter for the international capital markets, IOSCO sets the core Objectives and Principles,<sup>1</sup> along with supporting recommendations and guidance, on how to regulate capital markets activities and associated risks (together, IOSCO's principles). Our members adopt these principles, distilling them into detailed regulations domestically.

Traditionally, the ambit of regulatory authorities extends to securities and derivatives markets. IOSCO principles also apply to digital asset markets, but in practice, we have seen many participants are acting outside of, or non-compliance with, regulatory frameworks. We recognise, therefore for the benefit of investors, the need to provide additional clarity to these markets through targeted guidance in applying IOSCO's principles to crypto-assets in particular, including where there are unique features at play. Securities regulators are also actively cooperating in enforcement matters to ensure that actors involved in misconduct or fraudulent activities are held to account.

In March this year, IOSCO established a Board-level task force (the Fintech Task Force), with the aim of developing, overseeing, delivering, and implementing IOSCO's regulatory agenda with respect to Fintech and crypto-assets. The Fintech Task Force is also responsible for coordinating engagement with the FSB and other Standard Setting Bodies.

Whereas financial stability implications are limited at this juncture, the sharp fall in prices, along with various market practices have caused significant consumer harm as we witnessed from the recent sell-down. The Fintech Task Force will act on its investor protection and market integrity mandate, by delivering on its road map published in July this year.

We have established two workstreams under our roadmap. The first on "Crypto and Digital Assets" is led by the UK Financial Conduct Authority (UK FCA). The second, covering "DeFi Products and Services" is led by the US Securities and Exchange Commission (US SEC). My workstream leads, Matthew Long (UK FCA) and Valerie Szczepanik (US SEC), will provide further insight as we head into the panel discussion.

We intend to publish consultations reports for both workstreams in the first half of 2023.

## **Examples of key risks**

Let me cite a few of the key risks that are top of mind for the Fintech Task Force and explain how these are conceptually IOSCO's bread-and-butter issues, and the questions we are internally grappling with.

We are seeing many instances of market manipulation, wash trading and insider trading. For instance, a platform employee may be aware of the potential listing of a certain coin and may

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<sup>1</sup> <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD561.pdf>

use the information to invest in the coin and make a quick profit. There are existing IOSCO principles that would apply to such trading. We will therefore provide further guidance on the controls that could be put in place to detect and deter potential abuse of privileged information. We will also provide guidance relating to enforcement and cross border co-operation among regulators.

Another key risk for the Crypto and Digital Assets workstream concerns conflicts of interest. Conflicts of interest are particularly egregious in the context of crypto-asset service providers. Many of these so-called exchanges perform multiple roles that give rise to conflicts of interest. For example, trading platforms often provide brokerage services, custody and proprietary trading under a single roof – they also engage in the issuance of tokens, lending activities and complex re-hypothecation arrangements with client assets.

Like my last example on insider trading, there are existing IOSCO principles that already apply. The challenge is in determining the right level of guidance to provide. For instance, whether platforms should continue to be able to perform their own proprietary trading. Some jurisdictions have already proposed to disallow this. In addition, should platforms be allowed to list tokens which they have active interest in, and if so, what they need to disclose to users of their platforms?

Moving away from the Crypto and Digital Assets workstream, the DeFi workstream is similarly considering how common DeFi typologies map to the IOSCO principles. A straightforward example would be decentralised exchanges. These exchanges facilitate trading of crypto-assets. Broadly, IOSCO principles for Market Intermediaries, and IOSCO principles on Secondary and Other Markets may apply. Further, there are IOSCO principles that apply to borrowing/lending and aggregation protocols. The DeFi workstream will examine how these principles apply as part of their deliverables in 2023.

## **Conclusion – Technology**

Before I conclude my opening remarks, I would like to point out that despite speaking about many of the risks of digital assets, the Fintech Task Force, as the name implies, is about Fintech, and not just crypto-assets.

There is a distinction I would like to draw. We should separate the technology from its use case. Distributed ledger technology itself has many applications and potential benefits beyond cryptocurrencies. These benefits may include improving efficiency, faster transaction speed, and lower overall costs in capital markets operations.

We do not dismiss any technology, but will seek to critically examine its potential benefits, as well as its risks, so as to provide the best environment for innovation to take place responsibly through the application of IOSCO principles –for the benefit of investors.

Thank you.