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Director – Crypto Policy Unit
Financial System Division
The Treasury
Langton Crescent
PARKES ACT 2600

Submitted electronically to crypto@treasury.gov.au

RE: Comment Letter on the Australian Treasury's Consultation Paper: Crypto asset secondary service provider

Dear Director of the Crypto Policy Unit:

Thank you for the opportunity to provide feedback on the Australian Treasury's March 21, 2022, Consultation Paper on crypto asset secondary service providers: licensing and custody requirements.[1]

I. Introduction

The Centre Consortium is an independent, member-based consortium created to provide standards for Centre Standard Stablecoins beginning with USD Coin ("USDC"). Our mission is to provide trust and transparency so that users can operate with security and confidence in digital payments. Centre was co-founded in 2019 by digital currency industry pioneers Circle Internet Financial Limited ("Circle") and Coinbase Global, Inc. Our mission is to connect every person, merchant, financial service, and currency in the world through the power of digital currency and open, public blockchain networks. As the governance body of USDC, a US dollar stablecoin issued by Circle, we provide the standards for technology, governance, compliance, and reserves for USDC.

Centre is strongly committed to facilitating a strong global digital payments network and to preventing and deterring money laundering, terrorist financing, and other forms of illicit finance. We also greatly appreciate and support the Australian Treasury's efforts to build a strong digital financial system and digital economy.

[1] https://treasury.gov.au/sites/default/files/2022-03/c2022-259046.pdf

We recognize that the technological advancements that enable people and industries to engage in borderless commerce have also introduced new challenges and are committed to support the Australian Treasury's efforts to build a digital assets ecosystem in Australia. Centre fully supports the implementation of effective regulatory regimes to mitigate the risks presented by emerging technologies.

Although we are not an Australian-based organization, we look forward to working with potential stablecoin issuers in Australia that are seeking to adopt our high quality standards for the issuance of secure, fiat-backed stablecoins. Against this backdrop, we wish to submit this comment letter. We commend the Australian Treasury for your thoughtful consultation paper and wish to share only a few high-level comments that could also apply to many other jurisdictions.

In this letter, we focus on a couple of issues that would be beneficial in expanding the Australian regulatory frameworks to include crypto assets. Furthermore, our comments pertain specifically to fiat-backed stablecoins, which are backed on a 1:1 basis by reserve assets, such as bank deposits and short-term government bonds.

II. Responses

a. Challenges classifying crypto assets as financial products or non-financial products

We are agnostic on the term "crypto asset secondary service provider" ("CASSPr"). We are also agnostic on the CASSPr definition. However, some participants have highlighted that including 'secondary' could be limiting in the longer term if the regime is extended to 'primary' service providers.], and we support that the definition for "crypto asset" [2] by ASIC be applied across all Australian regulatory frameworks to ensure consistent treatment and implementation.

i. Digital Australian Dollar is a Dollar

Fiat-backed stablecoins serve as the oil that runs the digital assets economy. They transfer value on blockchain for payments, financial services and trading. Digital representations of the Australian dollar used for payments purposes should be treated as "cash-equivalent" under Australian regulations, private commercial laws and accounting rules. Otherwise, an Australian dollar-backed stablecoin would be an ineffective medium of exchange. Thus, it is important to clarify whether fiat-backed stablecoins are not securities, commodities, or any type of intangible asset. Accordingly, a fiat-backed stablecoin should not be categorized as a "financial product" regulated by ASIC. Fiat-backed stablecoins are digital representations of their respective fiat currencies and should be treated like the fiat currencies they represent. This classification challenge is shared by nearly all jurisdictions with digital assets activities.

[2] *"…a digital representation of value or contractual rights that can be transferred, stored or traded electronically, and whose ownership is either determined or otherwise substantially affected by a cryptographic proof."* Australian Securities and Investment Commission, Consultation Paper 343 - Crypto-assets as underlying assets for ETPs and other investment products, ASIC, 2021, accessed 1 March 2022.

We note that there will be a later consultation on token mapping where it may be more appropriate to provide further views. However, Centre will note that regarding stablecoins, Treasury has suggested:

- "asset-backed crypto assets used as a store of value, means of exchange and unit of account. These would include certain stablecoins and Central Bank Digital Currencies (CBDCs);
- algorithmic stable crypto assets whether under-collateralised or over-collateralised."

The term "asset-backed" is very broad and can refer to any type of asset from cash to gold to other crypto assets (e.g., the types of assets that are used to back the value, other than fiat currency as well as the level of backing for the stablecoin has: fully, partial, varying). It is important to note that as discussed above fiat-backed stablecoins are backed on a 1:1 basis and should be treated as "cash equivalent" - and not as securities or intangible assets - under the various regulatory frameworks, private commercial laws and accounting rules.

b. Capital Requirements of CASSPrs

The Consultation Paper mentions proposed obligations to include CASSPrs that custody crypto assets on behalf of customers to "maintain financial requirements including capital requirements." For issuers of fiat-backed stablecoins, capital requirements may be less suitable. Stablecoin issuers that maintain 100% reserves in cash, bank deposits and short-term Australian Treasury bonds may not be best regulated by additional capital requirements. For such a stablecoin arrangement, a liquidity buffer may be more suitable. Another option would be for issuers to maintain the reserves with the Reserve Bank of Australia.

III. Conclusion

We greatly appreciate the opportunity to comment and look forward to having a dialogue with the Treasury. If you have further questions, please do not hesitate to contact us.

Sincerely,

Linda Jeng
Chief Policy & Regulatory Officer
Centre Consortium
[redacted]