VISA

3 March 2023

Director – Crypto Policy Unit
Financial System Division
Treasury
Langton Cres
Parkes ACT 2600

Via email: crypto@treasury.gov.au

Dear Director of the Crypto Policy Unit,

Visa submission to Treasury on token mapping: Consultation Paper

Visa welcomes the opportunity to share its perspective on Treasury's Consultation Paper on token mapping.

In responding to Treasury's consultation on the following pages, our submission focuses on several topics, including: regulation of the crypto ecosystem; consumer safeguards; the backing of crypto assets by real world items; and the regulatory frameworks that address the marketing and promotion of products within the crypto ecosystem.

Visa has welcomed our engagement with Treasury over several years and via a number of consultations related to the payments system. We look forward to continuing this dialogue – in this case specifically on token mapping to help ensure that regulation keeps pace as appropriate as financial products, including crypto assets, evolve. Visa is also available to provide further details on our submission if helpful to Treasury.

Q1) What do you think the role of Government should be in the regulation of the crypto ecosystem?

The global payments industry is experiencing an influx of investments and new entrants that are driving business model evolution and creating a complex and dynamic competitive landscape. As the payments ecosystem continues to evolve, government policies that support secure, open, and interoperable digital frameworks can facilitate innovative solutions and help drive growth in the digital economy, and in turn, advance financial services, inclusion, accessibility, affordability, and equity— especially for underserved communities.

In Visa's assessment, regulatory frameworks work best when they are principles- and risk-based and technology neutral. This provides businesses enough flexibility to further enable innovation. We believe that regulation of any scalable and innovative technology should take account of regulatory approaches across the world. This is especially important given the disparity among different jurisdictions, and the risk that strict interpretations may not cover new innovations or use cases.

We also believe that establishing a level playing field that applies to all parts of the payments ecosystem promotes innovation and safely opens up new services for businesses and consumers; creating a balance between supporting innovation and providing regulatory clarity. For instance, governments could consider supporting permissive regulatory tools such as safe harbours, sandboxes, and no-action letters, when appropriate, in order to promote crypto innovation.

In addition, Visa suggests that governments periodically review any regulatory frameworks to ensure they remain relevant and fit for purpose. This is especially important given the dynamic nature of the digital assets market. As a general approach, Visa advocates for the principle of same risk, same regulation. Many of the risks associated with Digital Payment Tokens (DPTs) exist in stocks, commodities, and their associated service providers, with existing regulatory tools to mitigate these risks. Visa supports addressing these risks with the same or equivalent regulatory tools, where appropriate. For that reason, we support Treasury's effort to identify the key activities and functions of products in the crypto ecosystem and map them against existing regulatory frameworks through this consultation.

Consistent with the principle of same risk, same regulation, we encourage governments to carefully consider addressing risks via existing regulatory regimes, rather than creating a separate regulatory regime specifically for DPTs, to avoid parallel and siloed regulatory frameworks.

Visa believes, given the early phase of development, risk-based capital frameworks should be calibrated based on the product type (among other factors). In addition, standards development – particularly for distributed ledger technology (DLT) – will be necessary by all stakeholders to ensure security, governance, and payments interoperability of crypto-assets and stablecoins.

Q2) What are your views on potential safeguards for consumers and investors?

Given the potential complex nature of DPTs, the risks associated with these assets may be particularly difficult for retail customers to fully understand or take into account. As a result, consumer education and transparency of Digital Payment Token Service Providers (DPTSPs) are very important. To address this, Visa recommends a disclosure-based approach toward DPT listing and governance policies as this contributes to consumer education and allows consumers to make informed choices.

In addition, for stablecoins, it is important that the public and private sectors work together to develop appropriate safeguards and standards for how underlying reserves are managed in order for stablecoins to be trusted and reliable and to ensure consumers and businesses are able to redeem at par. Furthermore, it should be clear to consumers what rights they have when they hold or use a stablecoin.

Q6) Some intermediated crypto assets are 'backed' by existing items, goods, or assets. These crypto assets can be broadly described as 'wrapped' real world assets

> **a) Are reforms necessary to ensure a wrapped real-world asset gets the same regulatory treatment as that of the asset backing it? Why? What reforms are needed?**

As set out above, Visa advocates for the principle of same risk, same regulation. Many of the risks associated with wrapped real assets exist in the asset backing it (e.g., stocks, commodities, and their associated service providers), with existing regulatory tools to mitigate these risks. Governments need to evaluate whether a separate regulatory regime should be created specifically for entities that would be allowed to issue wrapped assets or if it is more appropriate to address these risks via existing regulatory regimes. Visa supports addressing these risks with the same regulatory tools, to the extent appropriate.

> **b) Are reforms necessary to ensure issuers of wrapped real-world assets can meet their obligations to redeem the relevant crypto tokens for the underlying good, product, or asset?**

For issuers of wrapped real-world assets, including stablecoins, it is important that the public and private sectors work together to develop appropriate safeguards and standards for how underlying assets are managed. Additionally, there should be appropriate guardrails against potential operational risks that are associated with the blockchain network that is being deployed. Furthermore, it should be clear to consumers what rights they have when they hold or use the token. Regulatory obligations should be imposed on the party in the best position (e.g., based on availability of information, the ability to implement effective controls, and the creator or steward of a bespoke platform of technology) to manage the risk. These obligations should not be assumed by default on the party that is most immediately within the supervisory or regulatory perimeter.

Q7) It can be difficult to identify the arrangements that constitute an intermediated token system.

(a) Should crypto asset service providers be required to ensure their users are able to access information that allows them to identify arrangements underpinning crypto tokens? How might this be achieved?

Crypto-asset products, services, and currencies are as diverse as the financial system. Accountability and regulation must be tailored to each product and service and should not attempt to capture the entire universe of crypto-assets in a singular standard. Regulatory obligations should be imposed on the party in the best position (e.g., based on availability of information, ability to implement effective controls, creator or steward of a bespoke platform of technology, etc.) to manage the risk, and not assumed by default on the party that is most immediately within the supervisory or regulatory perimeter. This is especially important for regulation of products and services based on unbacked crypto-assets.

Visa recommends that exchanges perform periodic auditing for on-chain and off-chain balances by reputable third parties, and provide additional measures such as proof of reserves and proof of solvency, as necessary to meet specific risk standards.

Visa recommends that crypto-asset service providers should be required to appoint an independent custodian to hold customers' assets. As a consequence, crypto-asset custodians should be subject to at least the same level of requirements as custodians of traditional assets, with potentially additional requirements to address new risks presented by these assets.

(b) What are some other initiatives that crypto asset service providers could take to promote good consumer outcomes?

Visa believes it is important to require high availability and recoverability of critical IT systems but to not make the requirement too restrictive. That may result in non-compliance. We recommend a risk-based approach that has an appropriate level of reporting.

In addition, common standards for DLT can help improve interoperability and governance for cross-border payments. DLT standards are still nascent and industry leaders can help shape the direction of DLT standards. One area where interoperability can be improved is through governance procedures for smart contracts.

Provided there are common standards among jurisdictions, DLTs that support smart contracts can enhance interoperability through the programmability capabilities of smart contracts. This is because they can allow automatic verification of more complex validity and compliance requirements.

Depending on the design, DLT networks can also improve cybersecurity by increasing the resiliency of the overall network from being exposed to compromise from a single access point or point of failure.

Q11) Some jurisdictions have implemented regulatory frameworks that address the marketing and promotion of products within the crypto ecosystem (including network tokens and public smart contracts). Would a similar solution be suitable for Australia? If so, how might this be implemented?

Visa recommends implementing a framework that provides clarity on marketing and promotion of products within the crypto ecosystem. Such a framework should be based on the principle of establishing a level playing field that applies to all similar industries, as this will promote innovation and safely open up new services for businesses and consumers.

About Visa

Visa is one of the world's leaders in digital payments. Our mission is to connect the world through the most secure, reliable, and innovative payment network – enabling individuals, businesses, and economies to thrive. We facilitate global commerce and money movement across more than 200 countries and territories and among consumers, financial institutions, businesses, strategic partners, and government entities through innovative technologies.

In Australia, Visa has offices in Sydney and Melbourne. Together with our Australian financial institutions, fintech and business clients, and our technology partners, we are committed to building a future of commerce that fosters Australian economic growth, security and innovation. Since 2020, Visa has worked with Global Sisters to provide business mentoring and coaching to aspiring businesswomen who recently graduated from Global Sisters' small business education program. In the same year, we launched #WhereYouShopMatters, an initiative focused on supporting Australian small businesses through education and promotion. Prior to this, Visa partnered with Quest Payment Systems and The Big Issue, the independent magazine sold by homeless, marginalised and disadvantaged people, to enable Big Issue vendors to accept digital payments.

The COVID-19 pandemic has accelerated digital change, but we have seen a permanent behavioural shift to digital that is set to sustain for the long term. Today, Visa is seeing a collective movement across companies in the fintech industry, working on innovative technologies that aim to unlock the power of digital money, and further reshape our payments world, and commerce more broadly. We believe that digital currencies will have a lasting impact on the future of financial services and money movement. At the same time, it is important that security keeps pace with such innovation. This is why, over a five-year period, Visa invested nearly US$9 billion in systems resilience, fraud management and cybersecurity, including tokenisation, Artificial Intelligence (AI) and blockchain-based solutions, to bring even more security to every transaction.[1] In 2021, Visa's AI-driven security helped financial institutions prevent more than AU$354 million in fraud from impacting Australian businesses.[2] In the same year, Visa also released its updated Australian Security Roadmap 2021-23, which highlights the steps that Visa is taking, together with industry, to continue securing digital payments in Australia.

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[1] Visa internal data on global technology and operations investments, FY15-FY19. For further detail, see https://usa.visa.com/visa-everywhere/blog/bdp/2019/12/24/investing-in-the-1577207091483.html

[2] Visa (2021), "Visa's AI prevents more than $350 million in fraud from disrupting Australian businesses"