



FSB's Concerns About Crypto Asset Intermediaries

For Prelims: [Financial Stability Board \(FSB\)](#), [Cryptocurrency](#), [Bitcoin](#), [Ethereum](#), Litecoin

For Mains: Significance of Financial Stability Board (FSB) in monitoring global financial system

Source: [TH](#)

Why in News?

Recently, the [Financial Stability Board \(FSB\)](#)'s latest report on **crypto-asset intermediaries** sought measures to enhance **cross-border cooperation** and **information sharing** among local authorities. This is to effectively regulate and address gaps in **Multi-function Crypto-asset Intermediaries (MCIs)** operating globally.

What are Crypto Assets?

- Crypto assets are a digital representation of value that can transfer, store, or trade electronically. This also includes [non-fungible tokens \(NFTs\)](#).
 - NFTs are blockchain-based tokens that each represent a unique asset like a piece of art, digital content, or media. An NFT can be thought of as an irrevocable digital certificate of ownership and authenticity for a given asset, whether digital or physical.
- Crypto assets are a subset of digital assets that use **cryptography** to protect digital data and distributed **ledger technology** to record transactions.

What are the Multi-function Crypto-asset Intermediaries (MCIs)?

- **MCIs** is an individual firm, or groups of affiliated firms that offer a range of **crypto-based services, products** and **functions** which primarily revolve around operating the trading platform.
 - Examples include Binance, Bitfinex and Coinbase.
- The primary source of revenue for these platforms are the **transaction fees** generated from trading-related activities.
- These MCIs may also derive revenue from operating a [blockchain infrastructure](#) for which they may collect transaction validation fees.

What are the Concerns Related to MCIs as per FSB's Report?

- **Transparency:** The report observes that most **MCIs** are generally **not transparent** about their corporate structure. If they disclose information it is typically for a small part of their business, specific to a jurisdiction.
 - **MCIs** failed to provide a clear account of transactions activities or audit practices.
- **Anti-Competitive Behavior:** Having a large concentration of services in one place may lead to [anti-competitive behavior](#), making the system more vulnerable.
 - This concentration could make it **harder for new competitors** to enter the market and

increase the costs for users who want to switch to a different service provider.

- **Crypto-Friendly Banks:** The shutting down of banks friendly to crypto assets highlights the widespread risk of having a significant concentration of deposits tied to businesses relying on crypto assets.
 - Market stress in crypto-asset markets led to substantial losses for investors, eroding confidence in these markets.
- **Cryptocurrencies and Fiat currencies:** MCI's rely on banks and payment providers for transaction services, including converting between **cryptocurrencies** and (on-ramp and off-ramp services).
 - If the trading platform stops operating or if the bank fails to offer real-time operations, there is a risk of counterparty issues.
 - Additionally, providing loans and credit lines to MCI's by banks involves credit risk, especially when using crypto-based collaterals that may decline in value in the future.

What is Financial Stability Board (FSB)?

- The FSB is an **international body** that **monitors** and makes **recommendations** about the **global financial system**.
- **FSB** was established in 2009 under the aegis of **G20**.
- **India** is an active Member of the FSB having three seats in its **Plenary** represented by Secretary of Economic Affairs, Ministry of Finance, Deputy Governor of **Reserve Bank of India (RBI)**, Chairperson of **Securities and Exchange Board of India (SEBI)**.

Way Forward

- **International Cooperation and Information Sharing:**
 - Promote enhanced cross-border cooperation and information sharing among local authorities to effectively regulate and address gaps in the operations of MCI's.
 - Establish international standards for transparency and reporting to ensure a comprehensive understanding of the operations of MCI's across jurisdictions.
- **Regulatory Measures:**
 - Develop and implement clear regulatory frameworks specifically tailored to address the unique challenges posed by MCI's, fostering market integrity, investor protection, and financial stability.
- **Corporate Transparency:**
 - Mandate MCI's to enhance **corporate transparency** by providing detailed information about their **corporate structure, business lines, and operations**.
 - Implement measures to penalize non-compliance with transparency standards, ensuring that MCI's disclose relevant information for comprehensive regulatory oversight.

UPSC Civil Services, Previous Year Questions (PYQ)

Q. With reference to 'Financial Stability and Development Council', consider the following statements: (2016)

1. It is an organ of NITI Aayog.
2. It is headed by the Union Finance Minister.
3. It monitors macro-prudential supervision of the economy.

Which of the statements given above is/are correct?

- (a) 1 and 2 only
- (b) 3 only
- (c) 2 and 3 only
- (d) 1, 2 and 3

Ans: (c)

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