



Global Markets Advisory Committee March 6, 2024



Commissioner
Caroline D. Pham



Commissioner
Christy Goldsmith Romero



Commissioner
Summer K. Mersinger



Opening Remarks



**Keynote Speaker: John Schindler, Secretary
General, Financial Stability Board**

2024 FSB work programme

John Schindler, Secretary General, Financial Stability Board

Commodity Futures Trading Commission Global Markets Advisory Committee Meeting

Wednesday 6 March 2024



About the FSB

“The FSB is established to coordinate at the international level the work of the national financial authorities and international standard setting bodies in order to develop and promote the implementation of effective regulatory, supervisory, and other financial sector policies. In collaboration with the international financial institutions, the FSB will address vulnerabilities affecting financial systems in the interest of global financial stability.”

FSB Charter



Established in 2009
By G20 leaders

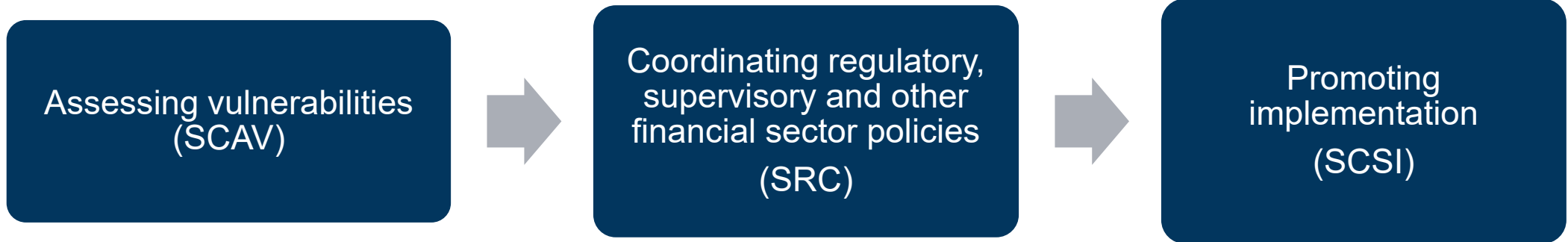
More information available: [About the FSB - Financial Stability Board](#)

FSB membership

- FSB brings together senior officials of:
 - National financial authorities (24 jurisdictions)
 - Ministries of finance
 - Central banks
 - Supervisory and regulatory authorities
 - Chairs of international standard setting bodies (BCBS, CPMI, IAIS, IASB, IOSCO)
 - Chairs of committees of central banks (CGFS)
 - International/regional bodies (BIS, IMF, World Bank, OECD, ECB, European Commission)

What does the FSB do?

- Identifies systemic risk in the financial sector
- Develops policies at the international level to address these risks
- Monitors and reports on implementation of those policies

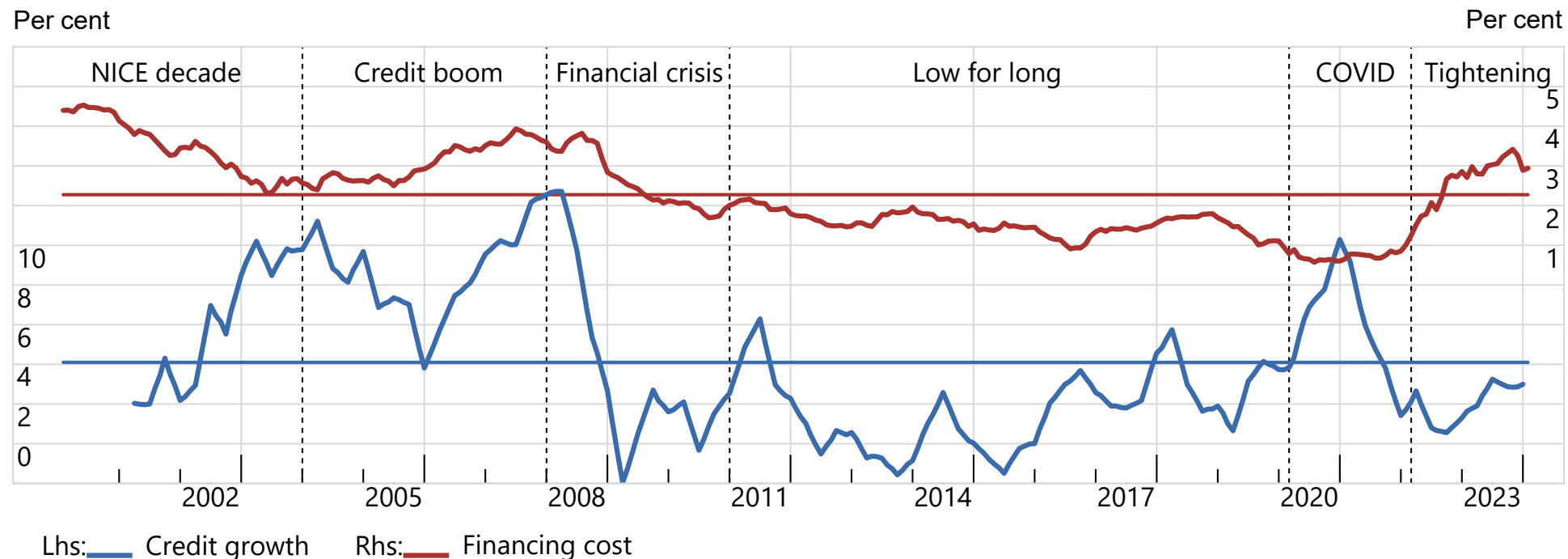


Cyclical Vulnerabilities



Challenging outlook for financial stability is shaping FSB work

Global cost and quantity of credit

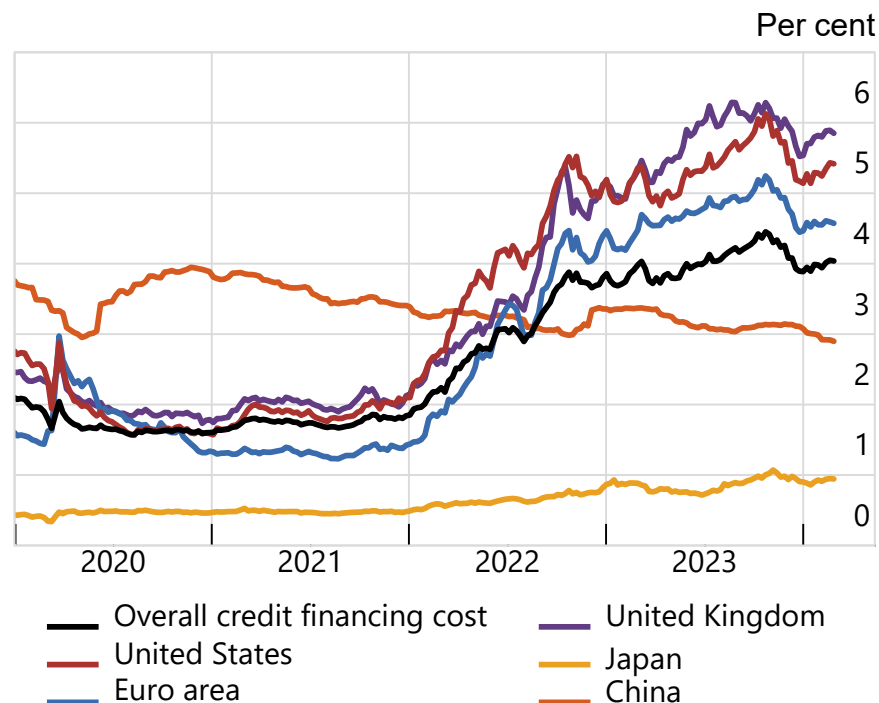


The global financing cost is a weighted average of global government bond yields, corporate bond yields and interest rates on new bank loans. The weights used are the amount outstanding in global bond markets and bank loans. Global credit growth shows domestic bank lending, bank cross-border credit and both government and corporate bonds. The horizontal lines show the long-term averages for the global financing cost and credit growth.

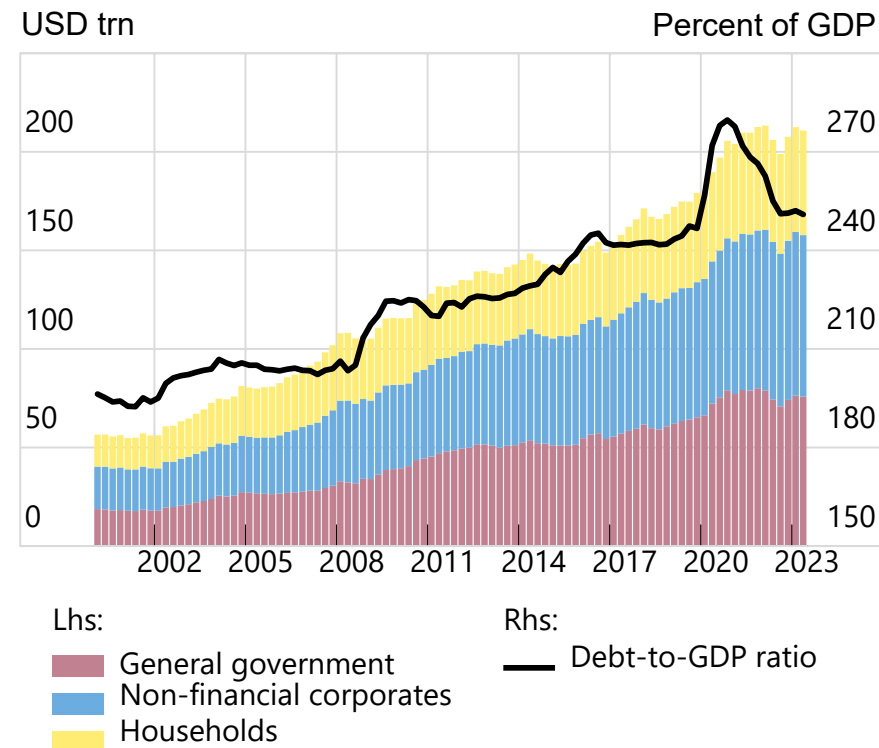
Sources: ICE BofAML; BIS; Bloomberg; national data; FSB calculations.

Challenging outlook for financial stability is shaping FSB work

Global financing cost¹



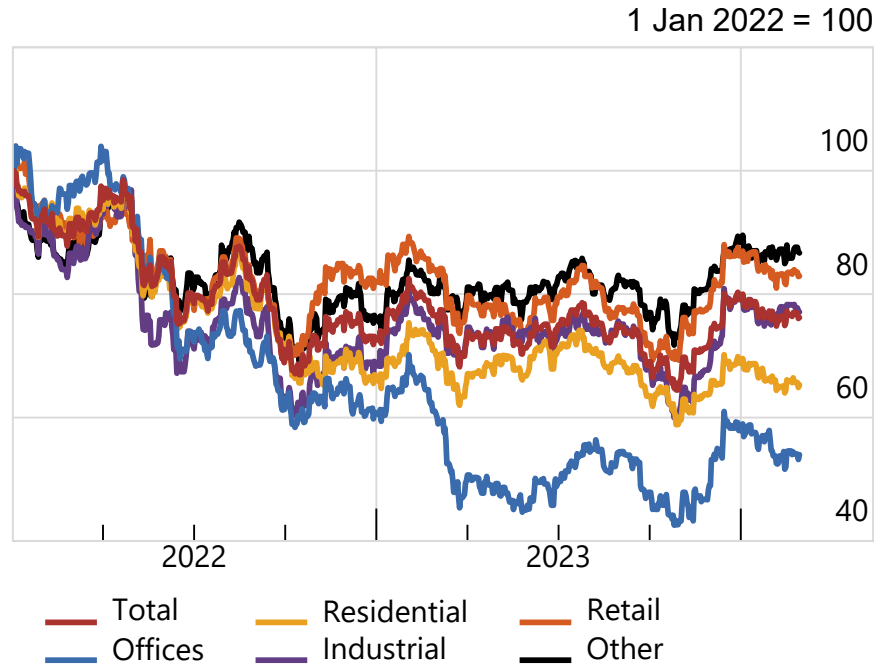
FSB member jurisdictions' debt



¹ The global financing cost is a weighted average of global government bond yields, corporate bond yields and interest rates on new bank loans. The weights used are the amounts outstanding in global bond markets and bank loans. Sources: ICE BofAML; BIS; Bloomberg; FSB calculations.

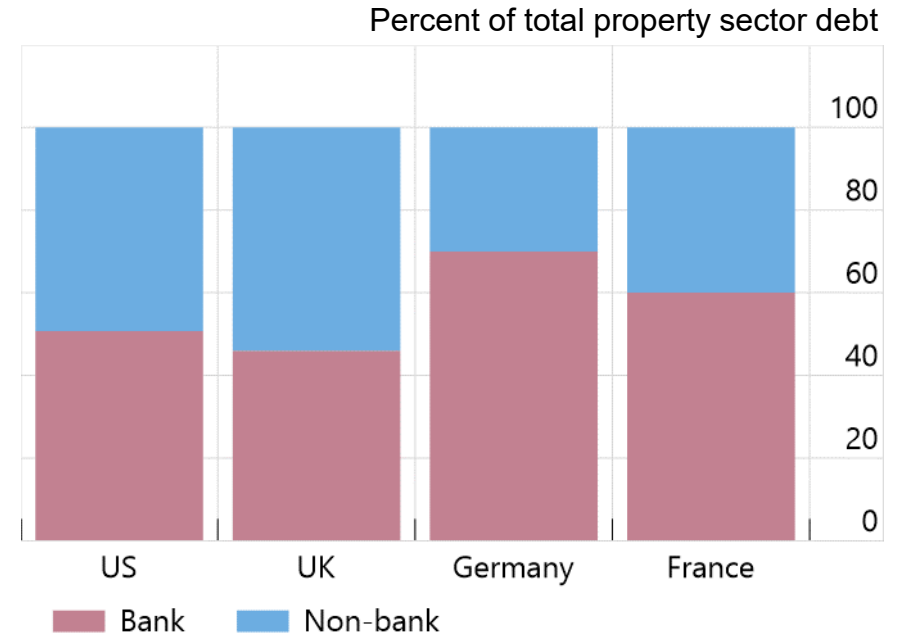
Pressures building in some sectors such as commercial real estate

Real estate investment trust prices



Sources: Bloomberg, FSB calculations.

Lending to the CRE sector



Sources: ESRB; national central banks and statistics; FSB calculations.

Lessons to be learnt from March 2023 bank failures

Areas under review in response to recent turmoil

- International banking standards
 - Microprudential Basel Committee work
 - Possibly followed by macroprudential FSB work
- International resolution framework
 - [FSB Report on preliminary lessons learnt for resolution](#), published in October 2023
- Market functioning and implications of new technology
 - FSB analysis of interest rate and liquidity risk in banks and non-banks
 - FSB analysis of bank deposit dynamics and the role of technology and social media

Resolution work priorities

- Conduct follow-up work on the lessons learnt from the 2023 bank failures
 - Public sector backstop funding mechanisms
 - Operationalization of bail-in
 - Resolution strategies and tools
 - Impact of social media and digital innovation on resolution
- CCP resolution: Finalize toolbox for CCP resolution authorities on financial resources and tools
- Insurance resolution: Publish list of insurers subject to resolution planning standards of the Key Attributes

Structural Vulnerabilities



Focus on Structural Vulnerabilities



NBFI



Financial risks from
climate change



Crypto-
assets

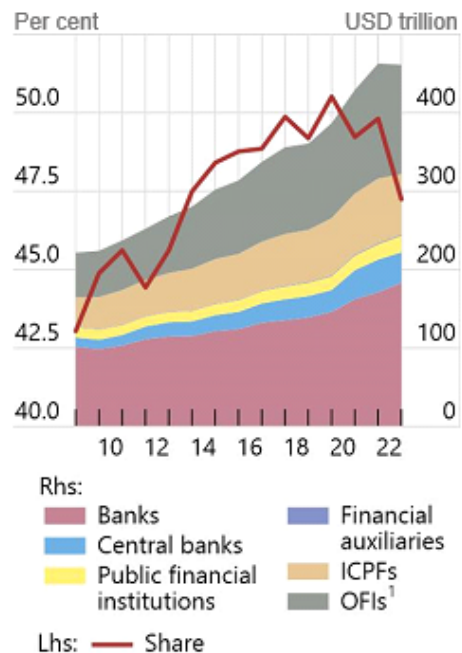


Cross-border
payments

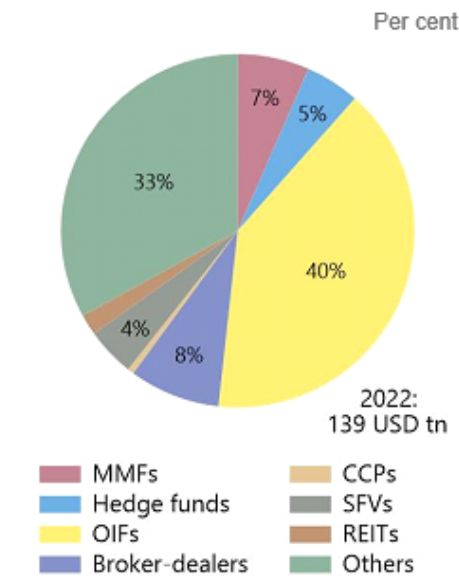
NBFI has grown considerably since the financial crisis...

The importance of NBFI for the real economy has increased

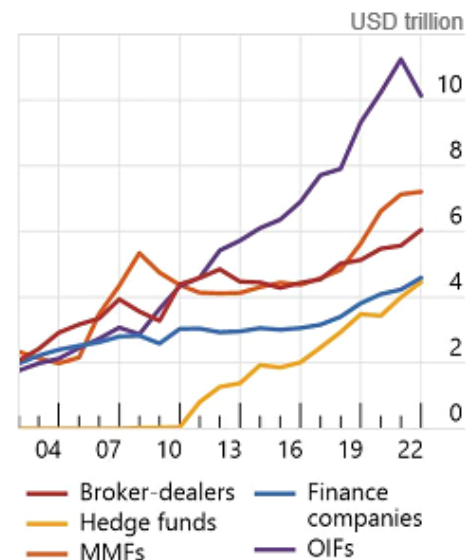
NBFI asset's rising share in total financial assets



Share of OFI's major subsectors to total OFI assets



Credit assets held by selected OFI sub-sectors²



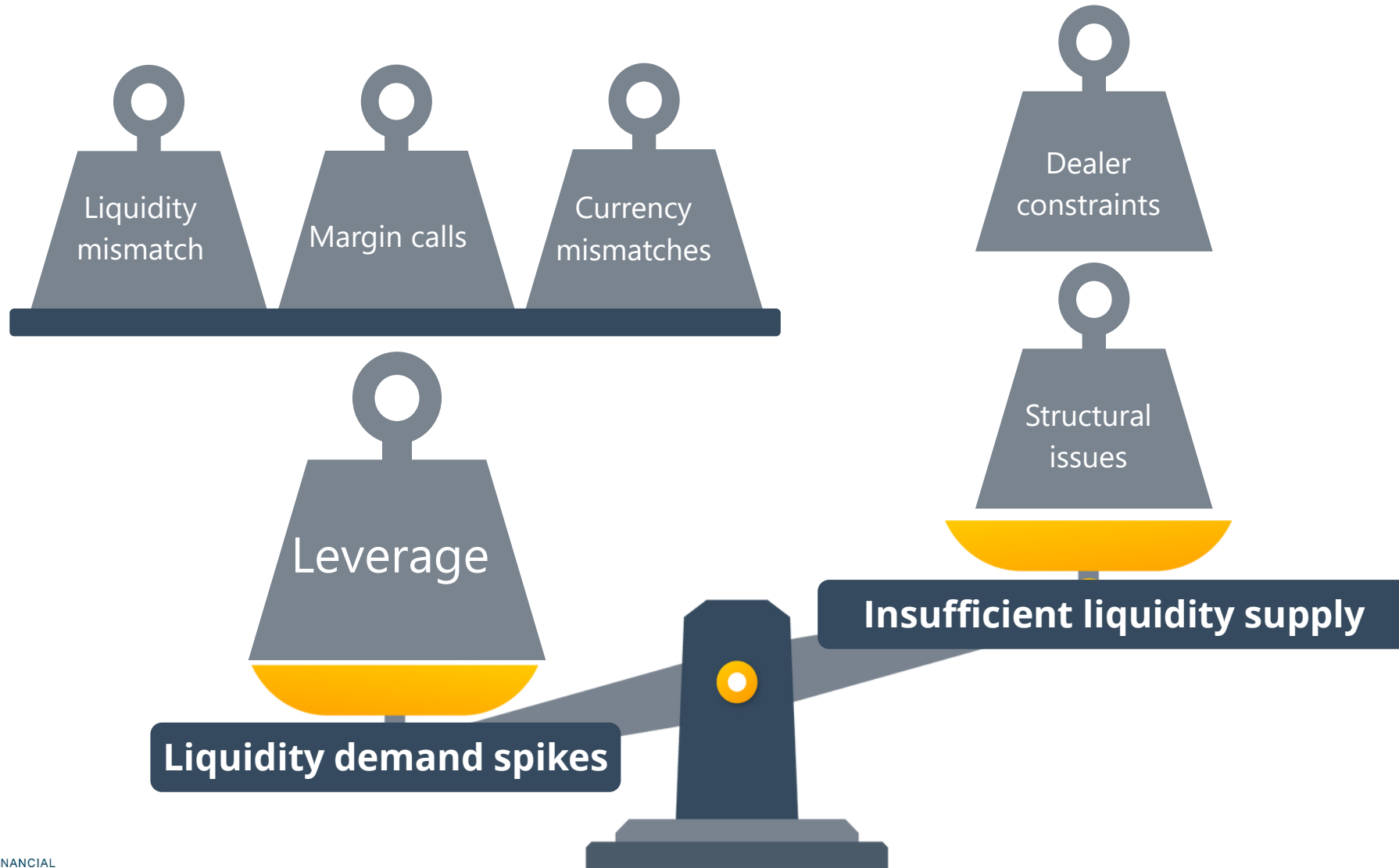
¹ OFIs (other financial intermediaries) is a subset of the NBFI sector, comprising all financial institutions that are not central banks, banks, public financial institutions, insurance corporations, pension funds, or financial auxiliaries. OFIs include, for example, investment funds, captive financial institutions, and money lenders (CFIMLs), central counterparties (CCPs), broker-dealers, finance companies, trust companies and structured finance vehicles. ² Increases of aggregated data may also reflect improvements in the availability of data over time at a jurisdictional level.

Source: FSB Global Monitoring Report on Non-Bank Financial Intermediation 2023, FSB calculations.

FSB's NBFI work program

- Objective: To enhance the resilience of the NBFI sector while preserving its benefits
 - Builds on the lessons from the March 2020 market turmoil
 - Enhancing NBFI resilience aims to ensure a more stable provision of financing to the economy and reduce the need for extraordinary central bank interventions
- Elements
 - Enhancing understanding and strengthening systemic risk monitoring in NBFI
 - Developing policies to address systemic risks in NBFI

Focus on key amplifiers of stress in NBFIs



Areas of NBFIs work

- Assess and address vulnerabilities associated with leverage in NBFIs
 - Non-bank leverage data, risk metrics and policy options
- Resilience of money market funds and short-term funding markets
 - Reviewing implementation of FSB's 2021 MMF policy proposals
 - Analysis of functioning and risks in CP, CD and repo markets
- Liquidity risk and its management in open-ended funds (OEFs)
 - Data pilot to monitor vulnerabilities from OEF liquidity mismatch
- Liquidity preparedness for margin and collateral calls

FSB roadmap on climate-related financial risks

Four interrelated areas – financial risk focus:

Disclosures

- ISSB global reporting framework
- Global assurance standards for sustainability-related reporting

Data

- Enhance data infrastructure to support analysis of climate-related financial risks

Vulnerabilities Analysis

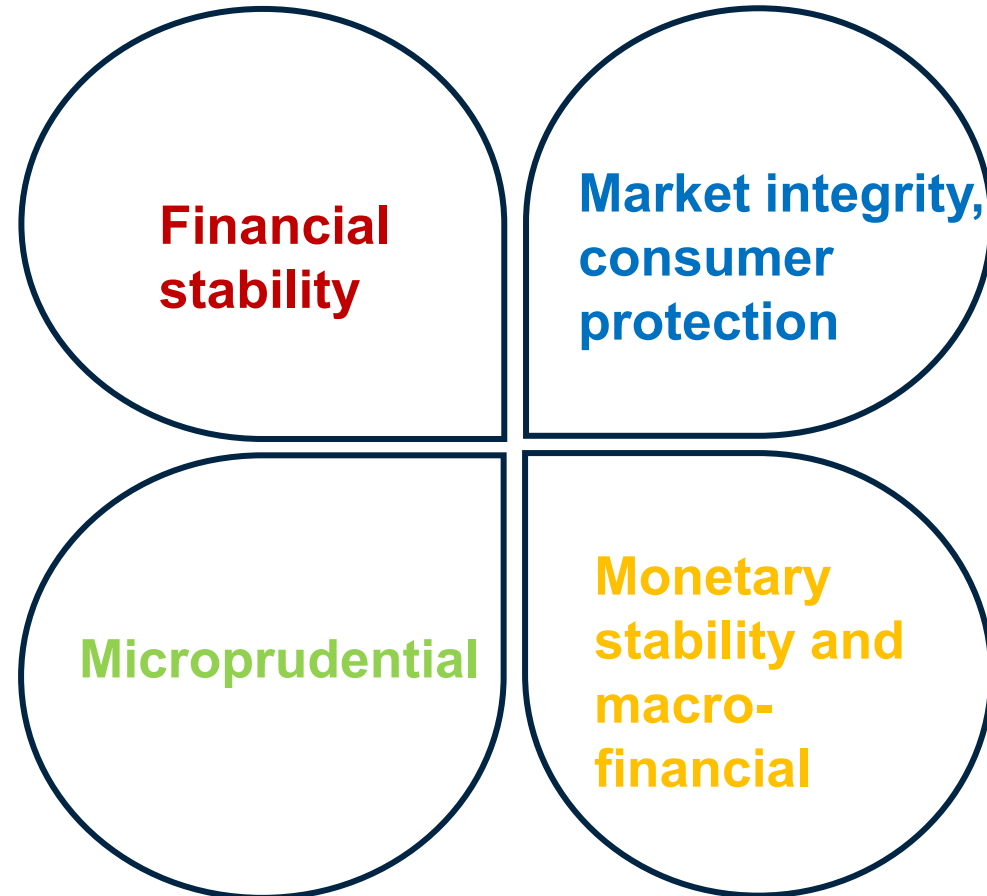
- Embed climate-related vulnerabilities in the FSB's ongoing vulnerabilities assessments
- Develop tools to assess climate vulnerabilities in a forward-looking manner

Supervisory and Regulatory approaches

- Develop effective practices and tools to address climate-related risks
- Analyse the implications of transition plans for financial stability

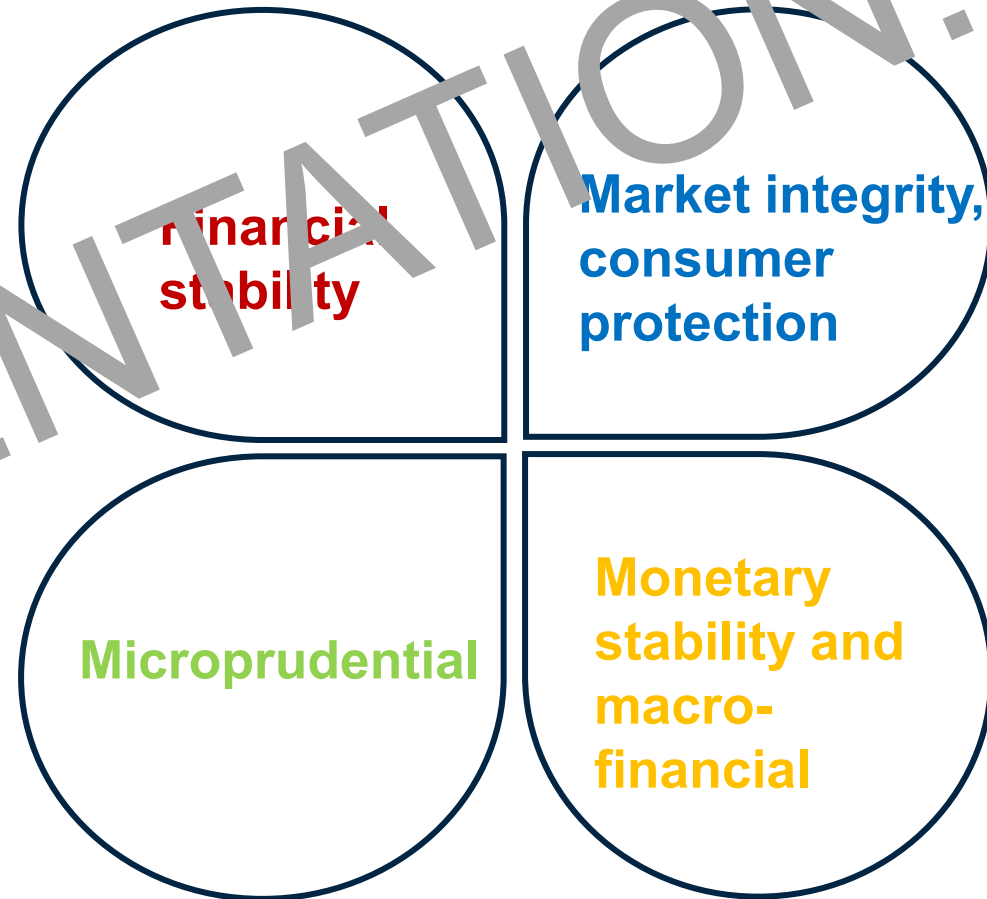
FSB framework as key part of comprehensive crypto policy approach

1. Internationally agreed upon minimum standards
2. Consistent implementation globally
3. Ongoing communication and coordination



FSB framework as key part of comprehensive crypto policy approach

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G20 Roadmap to enhance cross-border payments

Cross-border payments suffer from four key challenges:



Low speed



High costs



Limited access



Limited transparency

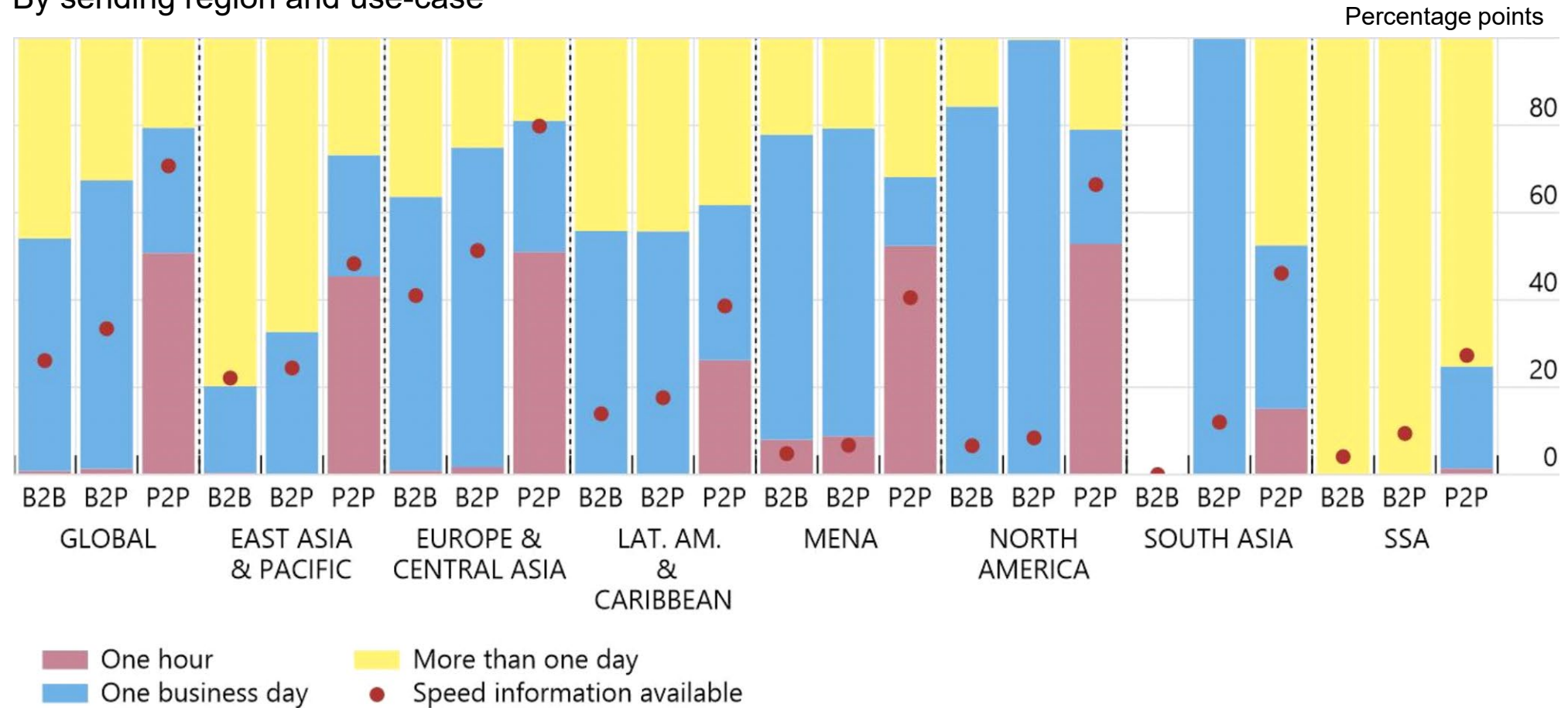
Roadmap aims to achieve faster, cheaper, more inclusive and more transparent cross-border payments services

Targets to ensure commitment and accountability

Challenge	Wholesale	Retail (e.g. B2B, P2B/B2P other P2P)	Remittances
Cost	No target set	Global average cost no more than 1%, no corridors higher than 3%	UN SDG remittances cost target reaffirmed
Speed	75% within one hour of payment initiation, remainder within one business day	75% within one hour of payment initiation, remainder within one business day	75% within one hour of payment initiation, remainder within one business day
Access	At least one option for sending + receiving wholesale payments	At least one option for sending + receiving cross-border electronic payments	90% of individuals to have access to means of sending a cross-border electronic remittance payment
Transparency	Joint target for all market segments: PSPs to provide a minimum defined list of information concerning cross-border payments to payers and payees		

Regional differences in speed of retail payments

By sending region and use-case




Continuation of other ongoing financial stability work

- [Evaluating the effectiveness and effects](#) of G20 financial reforms (e.g. FSB securitisation evaluation)
- Enhancing [resolvability of central counterparties](#) (CCPs)
- Enhancing [cyber](#) and [operational](#) resilience
- Encouraging consistent application and auditing of accounting standards and [enhanced audit quality](#)
- Continuing to [monitor implementation of financial reforms](#)
- Reviewing and publishing the [list of designated G-SIBs annually](#)

G20 deliverables in 2024*

Date	Report
Jul	<ul style="list-style-type: none">• Enhancing resilience in NBFIs: Progress report• Stocktake of regulatory and supervisory initiatives related to identification and assessment of nature-related financial risks
Oct	<ul style="list-style-type: none">• Annual report on implementation of the cross-border payments roadmap• Progress report on the cross-border payments quantitative targets• Crypto-assets implementation status report• Report on financial stability implications of tokenisation• Report summarising the work on interest rate and liquidity risk and on deposit behaviour and the role of technology and social media• Format for incident reporting exchange (FIRE) – Consultative report
Nov	<ul style="list-style-type: none">• Progress report on climate-related disclosures• Report on the financial stability implications of AI• Annual report to G20 on promoting global financial stability

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 @FinStbBoard

 FinancialStabilityBoard

The Financial Stability Board (FSB) coordinates at the international level the work of national financial authorities and international standard-setting bodies in order to develop and promote the implementation of effective regulatory, supervisory and other financial sector policies. Its mandate is set out in the FSB Charter, which governs the policymaking and related activities of the FSB. These activities, including any decisions reached in their context, shall not be binding or give rise to any legal rights or obligations.

FSB



**Recommendation from the GMAC Global
Market Structure Subcommittee**

CFTC GMAC
Market Structure Subcommittee
Recommendation
Treasury ETFs as Collateral for UMR

A lack of clarity and certain technical interpretive ambiguities of the Margin Rules unnecessarily limit the types of instruments that can be posted as margin, posing challenges for end users and swap participants

Our Recommendations

We urge the Commission to:

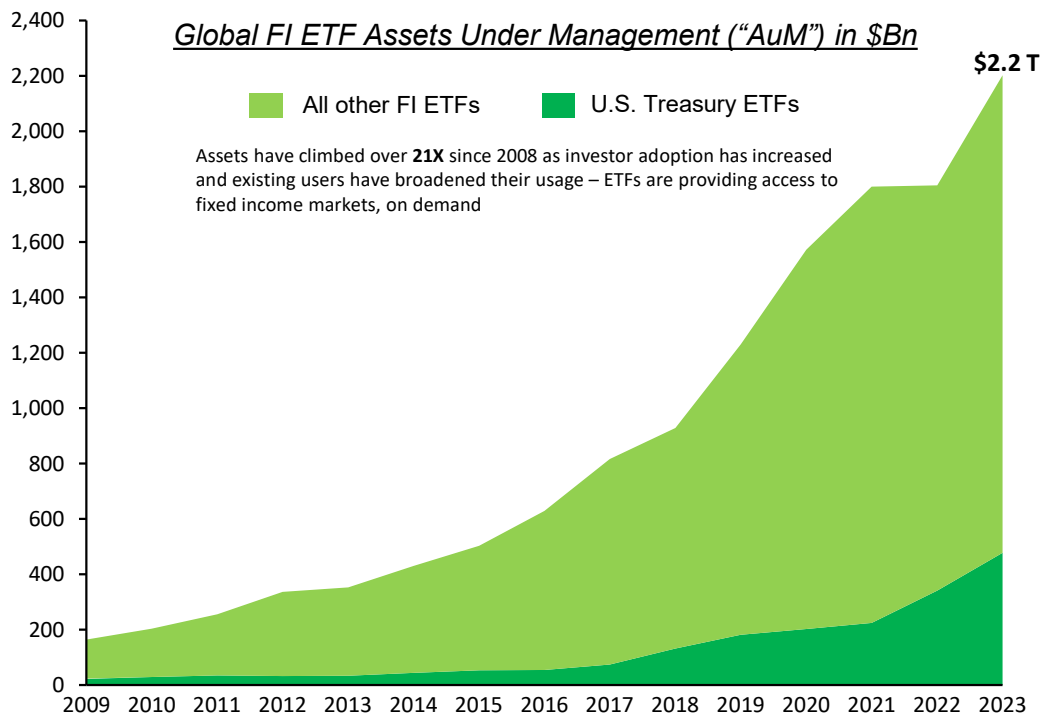
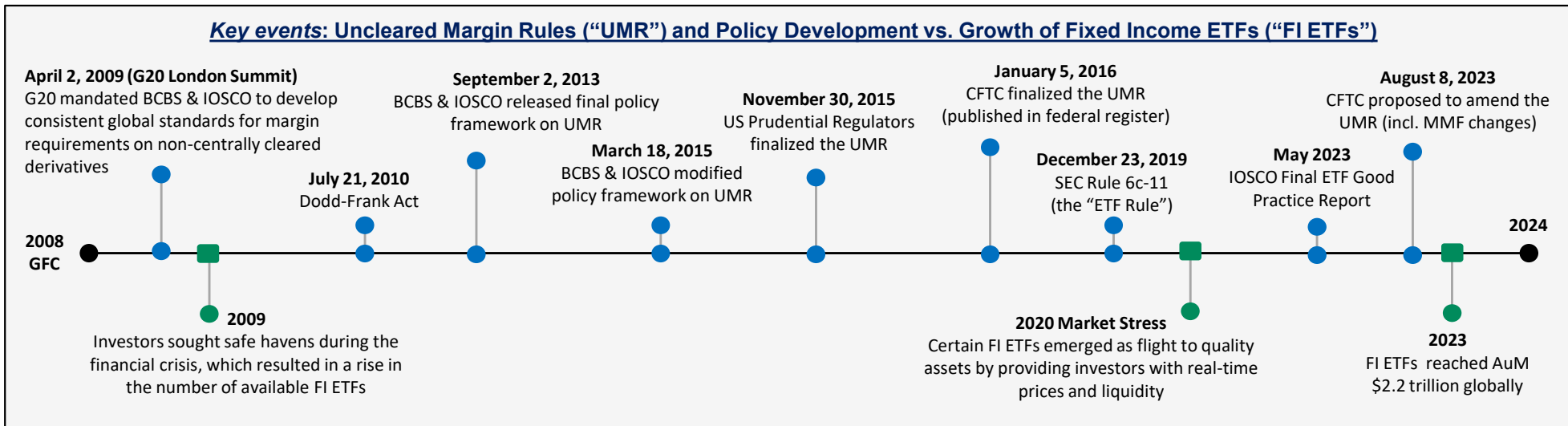
- 1. Include qualified U.S. Treasury exchange traded funds (“UST ETFs”) as eligible initial margin (“IM”) collateral** by aligning with the SEC’s guidance to treat ETF shares as redeemable securities under section 2(a)(32) of the Investment Company Act of 1940 (the “40 Act”)¹ and **providing a clarification that ETFs meet the Redeemability Requirements under the Margin Requirements for Uncleared Swaps for Swap Dealers and Major Swap Participants (the “Margin Rules”);^{2,3}** and
- 2. Work with U.S. Prudential Regulators to acknowledge and align their Margin Rules to ensure consistent collateral standards and acceptance by swap dealers.**

¹ 83 Fed. Reg. at 37341

² 17 C.F.R. § 23.156(a)(1)(ix)

³ We recognize that the clarification would make Qualified ETF subject to CFTC Regulation 23.156(a)(1)(ix) (A) - (C) and any future modification to it.

Regulations should evolve in tandem with markets



Source: BlackRock, as of 12/29/2023

⁴ [FR07/23 Good Practices Relating to the Implementation of the IOSCO Principles for Exchange Traded Funds](#), pg. 3

FI ETFs have:

- Experienced a rapid growth in assets and an increase in trading volumes,
- Emerged as a **valuable and robust investment tool**, serving as a catalyst for a more modern, digital, and transparent bond market; and
- Notably, **proved to be a source of stability during periods of market stress.**

In 2023, IOSCO confirmed that the overall ETF structure has remained relatively resilient during historical stress events.⁴

By including certain U.S. Treasury ETFs as eligible collateral under the Margin Rules, the collateral pipeline could become more robust and resilient which can also be beneficial for end-users seeking a wider range of eligible IM, covered swap entities, and broader financial markets.

BCBS-IOSCO: Determining Eligible Collateral for Margin

Background discussion⁵

*4(b) Accordingly, the BCBS and IOSCO have considered the types of collateral that should be deemed eligible for use in meeting the margin requirements, evaluating several different approaches. One approach would be to restrict eligible collateral to the most liquid top-quality assets, such as cash and high-quality sovereign debt, on the grounds that doing so would best ensure that the value of collateral held as margin could be fully realised in a period of financial stress. Another approach would be to **permit a broader set of eligible collateral**, including assets such as liquid equity securities and corporate bonds, and address the potential volatility of such assets through the application of appropriate haircuts to their valuation for margin purposes. **Potential advantages** of the latter approach would **include (i) a reduction of the potential liquidity impact of the margin requirements by permitting firms to use a broader array of assets to meet margin requirements and (ii) better alignment with central clearing practices, in which CCPs frequently accept a broader array of collateral, subject to collateral haircuts. After evaluating each of these alternatives, the BCBS and IOSCO have opted for the second approach (broader eligible collateral).***

Key principle #4

*To ensure that assets collected as collateral for initial and variation margin purposes can be **liquidated in a reasonable amount of time** to generate proceeds that could sufficiently protect collecting entities covered by the requirements from losses on non-centrally cleared derivatives in the event of a counterparty default, these **assets should be highly liquid** and should, after accounting for an appropriate haircut, be able to **hold their value in a time of financial stress**. The set of eligible collateral should take into account that assets which are liquid in normal market conditions may rapidly become illiquid in times of financial stress. In addition to having good liquidity, eligible **collateral should not be exposed to excessive credit, market and FX risk** (including through differences between the currency of the collateral asset and the currency of settlement). To the extent that the value of the collateral is exposed to these risks, appropriately risk-sensitive haircuts should be applied. More importantly, the value of the collateral should not exhibit a significant correlation with the creditworthiness of the counterparty or the value of the underlying non-centrally cleared derivatives portfolio in such a way that would undermine the effectiveness of the protection offered by the margin collected (i.e. the so-called “wrong way risk”). Accordingly, securities issued by the counterparty or its related entities should not be accepted as collateral. **Accepted collateral should also be reasonably diversified.***

⁵ <https://www.bis.org/bcbs/publ/d317.pdf>, pg. 17

Current CFTC UMR Eligible Collaterals with Standard Haircuts⁶

Eligible Collateral		Standardized Haircut Schedule
Cash	USD, major currency, currency of settlement for the uncleared swap	0.0
Eligible government and related debt	Residual maturity less than one-year	0.5
	Residual maturity between one and five years	2.0
	Residual maturity greater than five years	4.0
Securities in the form of redeemable securities in a pooled investment fund that invests in qualifying assets defined in 17 CFR 23.156(a)(1)(ix) (A) - (C), such as U.S. Treasury Securities		Not provided
Eligible corporate debt	Residual maturity less than one-year	1.0
	Residual maturity between one and five years	4.0
	Residual maturity greater than five years	8.0
Equities	included in S&P 500 or related index	15.0
	included in S&P 1500 Composite or related index	25.0
Gold		15.0

- **Under the UK and EU UMR regimes**, UCITs ETFs may be collected as collateral (for variation margin and/or initial margin purposes) if they meet certain eligibility criteria⁷

⁶ 17 CFR 23.156 Forms of margin

⁷ UMR under the European Market Infrastructure Regulation ("EU EMIR") and the UMR under the on-shored version part of the UK's domestic law post-Brexit ("UK EMIR")

We believe UST ETFs satisfy BCBS-IOSCO's key principle of being high-quality and liquid collateral for IM⁸, and meet the policy rationale of the Margin Rules⁹

1

Sufficiently Liquid

UST ETFs can be easily liquidated to sufficiently safeguard margin collecting entities from losses in case of a counterparty default, offering margin holders an additional level of liquidity, while also retaining their value during market stress

2

Not Subject to Complex Risk

UST ETFs are not subject to significant credit risk, market risk, FX risk, or wrong-way risk

To the extent that the value of the collateral is exposed to market risks, applying appropriate risk-sensitive haircuts can mitigate the risks

3

Market Driven

BCBS and IOSCO acknowledged that certain types of collateral may be more readily available or prevalent due to established market practices or conventions

UST ETFs are easily accessible and meet diversification requirements set forth by the SEC 40 Act¹⁰

⁸ <https://www.bis.org/bcbs/publ/d317.pdf>, pg. 17

⁹ 17 CFR Part 23

¹⁰ 15 U.S.C. 80a-5(b)(1)

UST ETFs as eligible IM collateral under the Margin Rules

Key Benefits

Diversification

UST ETFs provide a diversified exposure to a portfolio of U.S. Treasury securities in a single instrument, which can help mitigate the risk associated with an individual U.S. Treasury bond.

Liquidity

UST ETFs are known for their liquidity and ability to buy and sell shares on exchange, making them an important source of collateral, particularly during times of market uncertainty. **They offer two layers of liquidity:** primary market liquidity, provided by the ETF's underlying bonds, and secondary market liquidity. As a result, **ETFs can contribute to overall market liquidity, providing the margin holder of ETFs with potentially enhanced liquidity.**

- UST ETFs are at least as liquid as their underlying U.S. Treasury holdings and can potentially provide even greater market liquidity, as demonstrated in the 2020 Covid-19-induced market stress.

In an in-kind redemption, an Authorized Participant ("AP") will deliver ETF shares to the ETF in exchange for a basket of securities and a cash balancing amount (if any).

- **The bonds delivered to the AP by the UST ETF are themselves eligible collateral** under the Margin Rules.

Efficiency

Allowing UST ETFs as collateral could increase the efficiency of the collateral management process.

UST ETFs are liquid assets that can be transferred and pledged with greater ease and efficiency compared to an open-end mutual fund, which may pose more operational challenges.

There could be significant operational efficiencies to be realized by using a single ETF as collateral relative to posting multiple individual Treasury securities.

- **The ongoing management of cash flows are performed by the ETF itself**, including reinvestment, rebalancing, and performing collateral substitutions when a bond matures.

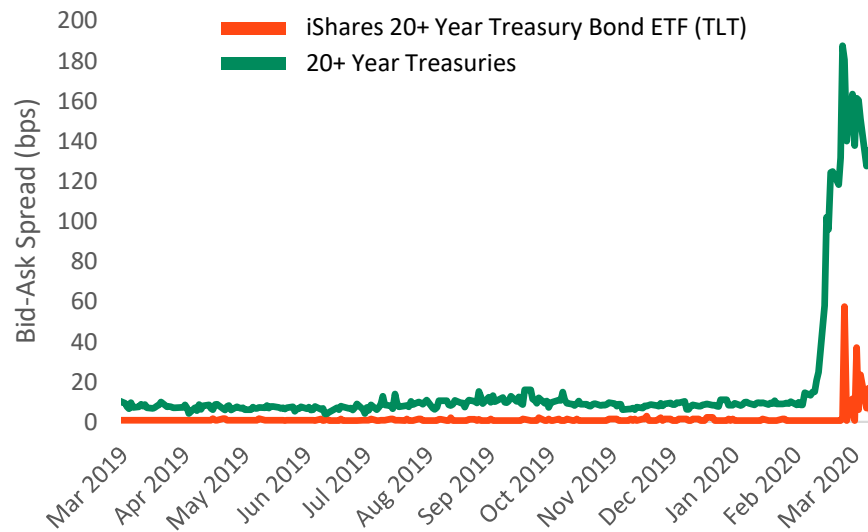
Market Stability

ETFs globally have acted as "shock absorbers" during many volatile trading sessions as buyers and sellers transacted on the exchange, at real-time prices, without having to trade the underlying bonds. UST ETFs can be beneficial for end-users seeking a wider range of eligible IM, providing margin holders with an additional level of liquidity and potentially reducing market impact in the event of margin liquidation.

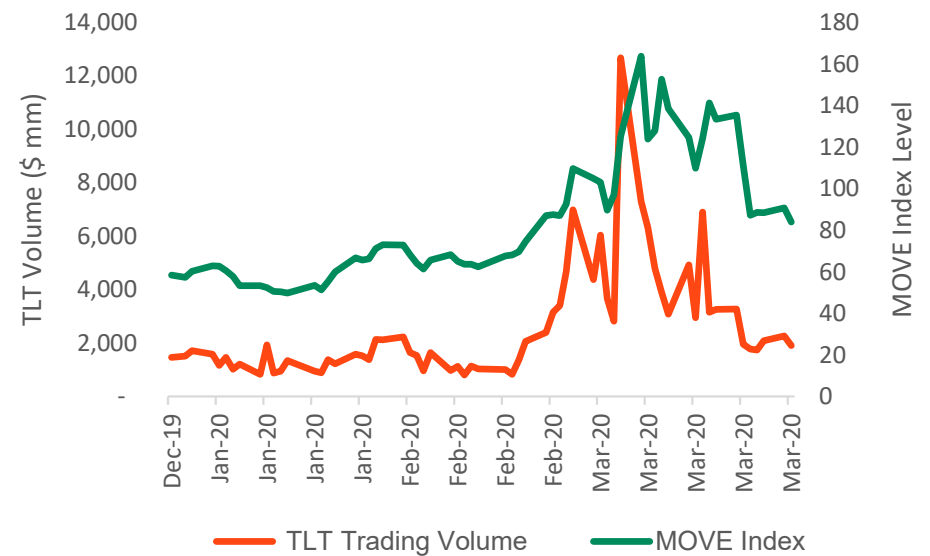
TLT during Covid-19 selloff (Feb – March 2020)

- Fixed Income ETFs, including UST ETFs, historically demonstrated lower trading costs relative to individual bonds, and can be a low cost and efficient way to enter or exit the bond market
- In early 2020, volatility increased on U.S. Treasury bonds as broker-dealer balance sheets were constrained. Spreads of a representative basket of 20yr+ treasury bonds widened to more than 80 basis points (bps) on average and were as high as 188 bps on March 18, 2020, compared to 10 bps in normal market conditions
- The iShares 20+ Year Treasury Bond ETF (“TLT”) averaged a spread of 8 bps over March 2020 compared to 1 bp in normal market conditions, making TLT generally cheaper than trading underlying treasuries
- On March 6, 2020, trading volumes of TLT substantially increased to over \$12.6 bn, providing liquidity to the market

**Bid/ask spread price comparison
TLT versus 20+ year treasuries**



**TLT had increased trading volumes while US
Treasuries were volatile**

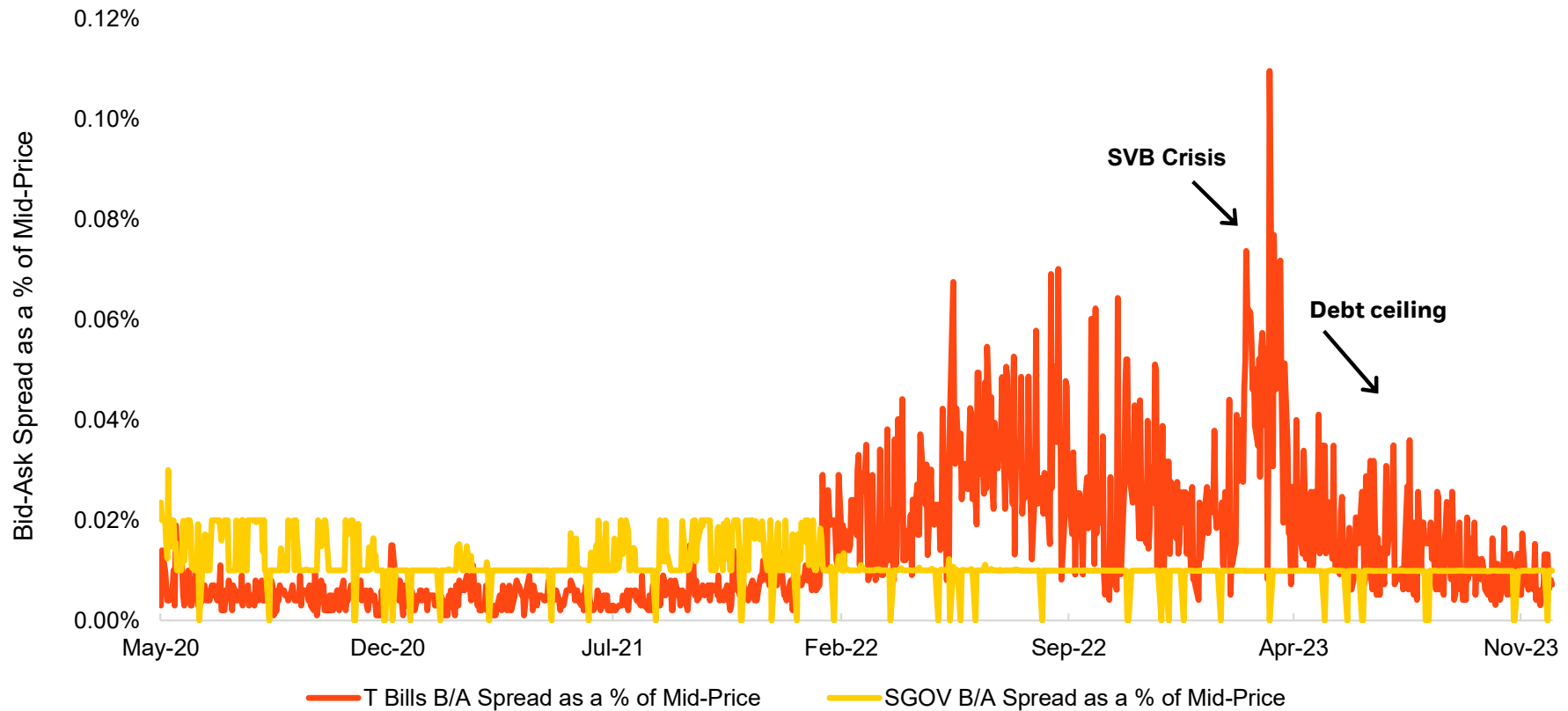


Source: BlackRock and Bloomberg, as of 03/31/2020 **MOVE Index is the ICE BAML MOVE Index, which measures volatility on US Treasury bonds**

SGOV bid-ask spread can exhibit less volatility than T-bills

The historical bid-ask spread of the iShares 0-3 Month Treasury Bond ETF (“SGOV”) (1bp) is on par with that of 3-month T-bills (1bp), but with less volatility

- The lower volatility in SGOV spreads creates consistency in liquidity to access the ultra-short end of the Treasury market.
- During periods of stress, trading volumes in SGOV have seen up to **5x increases** relative to averages, while **still maintaining** consistent spreads of 1bp.



Source: Blackrock and Bloomberg as of 12/31/23 **Note: SGOV inception date was 05/28/20**

GMAC Market Structure Subcommittee Recommendation

We recommend the Commission to:

1. **Include qualified UST ETFs as eligible IM collateral** by aligning with the SEC's guidance to treat ETF shares as redeemable securities under section 2(a)(32) of the 40 Act and **providing a clarification that ETFs meet the Redeemability Requirements under the Margin Rules**; and
2. **Work with U.S. Prudential Regulators to acknowledge and align their Margin Rules to ensure consistent collateral standards and acceptance by swap dealers.**

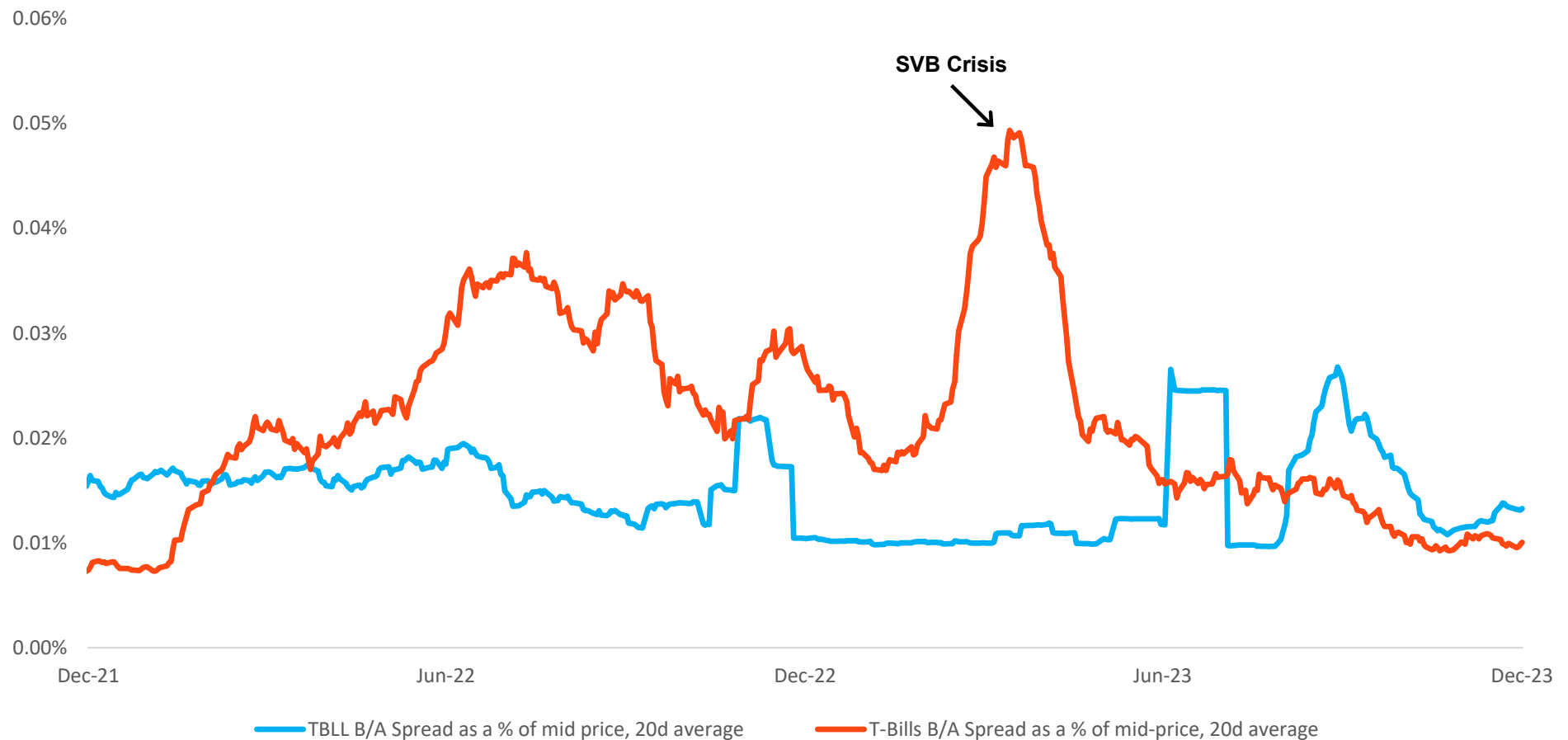
Why this matters

- **Market Participants Benefit:** Expanding the universe of eligible collateral, gives greater choice to market participants to collect and post a diversified, operationally efficient and liquid form of collateral.
- **Markets Benefit:** By adding certain US Treasury ETFs to the list of eligible uncleared initial margin, the potential liquidity impact of margin requirements could be further reduced, benefiting market stability.

Appendix

During recent market stress, TBLL has shown stability compared to T-bills

Historical data shows that the 20-day rolling average of bid-ask spreads for the Invesco Short-Term Bond ETF (TBLL) has remained consistently tighter compared to 3-month T-bills during periods of market volatility.



Source: Invesco and Bloomberg as of 12/31/23



Update: Swap Block and Cap Sizes Recommendation



BREAK



**Recommendation from the GMAC Technical
Issues Subcommittee**

Global Coordination of Market Events

Proposed T+1 Resource Guide

Summary of Issue

This guide is intended to be a resource document to support market participants as they prepare for the transition to T+1 settlement for US securities, as well as the parallel moves to T+1 in Canada and Mexico. Recognizing that participants in adjacent markets may have questions, this guide provides an introduction of the T+1 transition, its scope, areas of particular impact which market participants should be familiar with and provides links to more detailed resources to support their implementation planning.

Recommendations

We recommend the GMAC release the guide and make it available for market participants as they prepare for the transition. A March release is important to provide enough time for the guide to be distributed and firms to begin applying the information it contains to ensure they are prepared for the transition on May 27, 2024.

Background, Supporting Arguments or Examples & Data (if any)

Key Themes - Overview

The guide provides a foundational understanding of the of the T+1 transition, to help readers understand its scope, both in terms of products which will be changing their settlement cycle, and those that will not.

Key sections on this theme include:

What is the T+1 Transition in the U.S. Securities Markets?

What products will move to T+1 settlement?

What products will not change their settlement cycle?

What are the benefits of accelerated settlement?

How will market participants be affected by the T+1 transition?

Background, Supporting Arguments or Examples & Data (if any)

Key Themes - International

The move to T+1 in the US securities markets is being accompanied by parallel transitions in Canada and Mexico, and likely subsequent changes in Latin America. Additionally, UK and European markets are reassessing their own settlement cycles. This context helps users understand cross-border impacts.

Sections on this theme include:

What other markets are moving to T+1 alongside the U.S.?

Are other international markets considering accelerating their settlement cycles?

Background, Supporting Arguments or Examples & Data (if any)

Key Themes – Specific Impacts

The guide introduces a number of areas where industry products and processes will be impacted by the move to T+1, and links to resources which provide more in-depth analysis of these impacts and what firms should be doing to prepare.

Themes covered in this section include:

How will trade affirmation, allocation, and confirmation processes change under T+1?

How will securities lending be impacted by T+1?

How will collateral management be impacted by T+1?

What are some of the potential T+1 impacts on OTC derivatives?

How will securities lending be impacted by T+1?

Background, Supporting Arguments or Examples & Data (if any)

Key Themes – Cross-Border Impacts

The guide also covers areas where cross-border transactions and product types will be impacted.

Themes covered in this section include:

What are some of the Foreign Exchange (F/X) Markets Implications of the T+1 move?

How will foreign listed securities trading in the U.S. be impacted?

Background, Supporting Arguments or Examples & Data (if any)

Key Themes – Other Resources

The guide is intended to provide an introduction and starting point for readers to begin their own analysis of the impacts of the T+1 transition and connect them with resources needed for more detailed analysis.

In addition to the product & process specific resources covered above, it also links to detailed industry playbooks and testing resources.

Themes covered in this section include:

Industry Playbook

DTCC Resources:

- **FAQs**
- **Documentation**
- **Testing Frameworks**

Current settlement cycles in other securities products and markets



BREAK



**PANEL: Basel III Endgame Proposal - Perspectives
from Derivatives Market Participants**



**Recommendation from the GMAC Digital
Asset Markets Subcommittee**



Digital Asset Classification Approach and Taxonomy

Overview and Next Steps

Global Markets Advisory Council Briefing - 03/06/2023



Overview | Approach for Classification and Understanding of Digital Assets

A clear, **consensus-driven approach** to classifying assets and the functions they serve **underpins robust markets and effective regulation.**

This Approach aims to set out **consistent language for participants in the digital asset ecosystem** to promote innovation, identify and address risk considerations, and enable effective regulatory understanding.

The **Subcommittee recommends this Approach be considered an initial basis for a consensus-driven, functional taxonomy.** However, as the digital asset **ecosystem continues to evolve, so too will the terminology used to classify it.** The Subcommittee will reassess any future developments to provide further recommendations to this Approach, based on the guidance of its members. The Subcommittee seeks to support effective rules and regulations for Digital Assets, and **recommends continued collaboration between industry, standard-setting bodies, and the regulatory community.**

This Subcommittee highlights that this taxonomy is **intended to be used as an aid to help draft future legislation, regulations, policies, procedures,** and other situations where a common approach to understanding Digital Assets is needed.

The Subcommittee recognizes the **importance to not classify digital assets by reference to the type of database or network type on which they are issued/recorded.** Doing so is inconsistent with how financial instruments (and non-financial instruments) today are classified and could have unintended consequences for the application of market regulations. **Further analysis of the infrastructure is outside the scope of this document at this current time and will be considered in further work by the Subcommittee.**

Definition | Digital Asset

A controllable electronic record, where one or more parties can exclusively exercise control through transfer of this record **and** where the controllable electronic record itself is uniquely identifiable. excluded from the definition of digital asset are those controllable electronic records that exist in and function solely as part of a financial institution's books and records.

Economic Functions

Digital Assets may serve a variety of economic functions such as a store of value, medium of exchange or payment, a means for investment or trading, or a utility to access other goods, governance, or other services.

Assets with Existing Regulatory Frameworks

Within those functions, when those assets have the characteristics of regulated instruments that do not qualify as Digital Assets, a specific regulatory framework may already apply, and the Subcommittee believes that digitization does not, as a legal or practical matter, alter the functioning of the product or service, with the result that it is unnecessary to look beyond the existing classification for the regulated instrument.

Caution About Classifying Asset by Network Type

The Subcommittee recognizes the importance to not classify digital assets by reference to the type of database or network type on which they are issued/recorded. Doing so is inconsistent with how financial instruments (and non-financial instruments) today are classified and could have unintended consequences for the application of market regulations.

Key Features Beyond Economic Function

Given the nature of Digital Assets, regulators and standard-setting bodies should consider key features beyond economic function to classify these assets and determine what regulatory framework, if any, is adequate. This is similar to how frameworks, such as those that are used for classifying a security or financial instrument, are applied today.

Features | The features of a Digital Asset include, but are not limited to:

How Digital Asset is Issued	How Digital Asset Holds Value	How Digital Asset Confers Rights	How Digital Asset has Fungibility	How Digital Asset can be Redeemed	How Digital Asset is Recorded in Books & Records
<ul style="list-style-type: none">Type of issuer, if any	<ul style="list-style-type: none">PeggedUnpegged	<ul style="list-style-type: none">Existence of legally enforceable rights against the issuer	<ul style="list-style-type: none">FungibleNon-Fungible	<ul style="list-style-type: none">RedeemableNon-Redeemable	<ul style="list-style-type: none">Digital TwinDigital Native

Digital assets in this classification have at least one or more of the features captured in these categories, **but it should be noted that there may be features developed in the future that have not yet been contemplated at this time.**



Similarly, **not all Digital Assets classified here have all these features.**

This is therefore intended as a starting point designed to support regulators and policymakers to take a **use case driven approach to evaluate which types of regulations should apply to which types of assets.**



As these assets evolve and new ones are created, **this classification will need to be evolved**

Categorization | Initial Categorization of Digital Asset & Proposed Next Steps

The purpose of the Classification is to help the GMAC and CFTC differentiate between different types of digital assets.

Digital Asset Type	Instrument Type	Instrument	Regulatory Status	Call to Action
Money & Money-Like Digital Assets	Central Bank Digital Currency	General Purpose of Retail CBDC	To be completed as part of next steps for Taxonomy Working Group	
	Central Bank Digital Currency	Wholesale CBDC		
	Bank Deposits	Tokenized Deposits		
	Bank Deposits	Deposit Tokens		
	Reserve Backed Digital Currencies	Reserve Backed Digital Currencies		
Financial Digital Assets	Stablecoins	Stablecoins		
	Tokenized Security	Digital Twin		
	Security Token	Digital Native		
	Tokenized Derivative	Digital Twin		
	Derivative Token	Digital Native		
Alternative Digital Assets	Tokenized Alternative Asset	Digital Twin		

Please see existing taxonomy, pg. 5-9

Categorization | Initial Categorization of Digital Asset & Proposed Next Steps

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Digital Asset Type	Instrument Type	Instrument	Regulatory Status	Call to Action
Cryptoassets (e. g. cryptocurrucies)	Platform Cryptoassets (e.g. Bitcoin Ether)	Non-redeemable digital native token with no rights conferred by the issuer (if any)	To be completed as part of next steps for Taxonomy Working Group	
	Other Cryptoassets (e.g. meme coins)	Non-redeemable digital native token with no rights conferred by the issuer (if any)		
Functional Digital Assets	Functional Digital Assets	Cannot be exchanged for value, provides owner with a specific utility		
Settlement Controllable Electronic Record	Settlement Token	Solely to transfer or record ownership or perform other middle/back-office financial functions		

Please see existing taxonomy, pg. 5-9

Classification of Digital Assets

Classification of Digital Assets

Money or Money-Like Digital Assets

For a Digital Asset to be classified as money or a money-like Digital Asset it must meet one of the following three conditions: reliable store of value, medium of exchange, and unit of account.

Digital Money	
Central Bank Digital Currencies (CBDC)	<p>Central Bank Digital Currencies (CBDC): digital tokens representing a claim on a central bank for a fixed amount of central bank money denominated in a single currency; also, a liability of a central bank, with no credit or liquidity risk. It may or may not be programmable.</p> <ul style="list-style-type: none"> • “General Purpose” or “Retail” CBDC • “Wholesale” CBDC
Bank Deposits	<p>Tokenized Deposits: digital tokens that represent an existing record of a traditional ownership claim for a bank deposit on the token-issuing bank or depository institution, for a fixed amount of commercial bank money denominated in a single currency.</p> <p>Deposit Tokens: transferable digital tokens issued by a licensed depository institution which evidence a deposit claim against the token-issuing bank or depository institution, for fixed amount of commercial bank money or fiat cash denominated in a single currency.</p>
Reserve-Backed Digital Currencies	<p>“Reserve-Backed” Digital Currencies: privately issued (e.g., by a financial market infrastructure provider) digital tokens where the value of the issued token is backed by central bank reserves.</p>

Money-Like Digital Assets

Stablecoins

Stablecoins: privately-issued, money-like, digital tokens that aim to maintain a stable value relative to a **peg** specified by a reference asset (s) and designed to minimize value fluctuations relative to these reference assets (s). They are **not** issued by a central bank. They must also be at least **fully backed** by one or more assets specified under the specific regulatory framework, including

- Cash: to one or a combination of fiat currencies
- Securities: low risk, highly liquid securities such as those classified as High-Quality-Liquid Assets (“HQLA”) under the BCBS LCR30 framework (e.g., US Treasury Bills)

To meet the classification standard of a **Stablecoin**, the **issuer** should provide for the timely redemption of the **Stablecoin**, including during times of market-wide or **issuer-specific** stress.

For issuers who hold higher-risk backing assets or no backing assets in the collateral reserve, such as Cryptoassets, **the Subcommittee would not classify these as Stablecoins.**

Classification of Digital Assets

Financial Digital Assets

Typical use cases include financial investment, financial return, and access to capital markets.

Securities (and other financial instruments)

Tokenized Security

Tokenized Security: a **Digital Twin** token that represents an underlying security or financial instruments issued on a different platform (e.g., a traditional CSD or registrar), where such representation itself satisfies the definition of a security/financial instrument under local law.

Security Token

Security Token: a **Digital Native** token that satisfies the applicable regulatory definition of a security or financial instrument under local law.

Derivatives

Tokenized Derivative

Tokenized Derivative: a **Digital Twin** token that represents an underlying derivative instrument issued and recorded on a different platform, where such representation itself satisfies the definition of a derivative under local law.

Derivative Token

Derivative Token: a **Digital Native** token that satisfies the applicable regulatory definition of a derivative instrument under local law.

The Subcommittee highlights that traditional derivative contracts which provide exposure to an underlying Digital Asset (e.g., bitcoin futures) are out of the scope of this document and not considered here, regardless of settlement type (e.g., physically or net in cash)

Classification of Digital Assets

Alternative Digital Assets

Typical use cases include representation of interest in a good or non-financial asset

Tokenized Alternative Asset

Tokenized Alternative Assets: Digital Twin tokens representing an interest in, entitlement to, or claim on, an alternative (or non-security) asset (or claim on the issuing entity for the asset, where applicable), where such representation itself satisfies the definition of such interest, entitlement, or claim under local law; these alternative digital assets may include:

- Tokenized Physical Commodities (e.g., wheat, oil, corn);
- tokenized Real Estate; or
- other Tokenized Assets of Goods (e.g., carbon credits, art, intellectual property rights, and intangible, discrete assets that only exist in digital form on a programmable ledger platform).

If certain activities are performed on a tokenized non-financial asset, **the classification category may change**. For example, in the case of Tokenized Real Estate, fractionalization may convert the Alternative Digital Asset to a Financial Digital Asset.

Crypto Assets (Cryptocurrencies)

Typical use cases include a network-specific medium of exchange, unit of account for transaction fees, speculative investment, and branded store of value.

Platform Cryptoassets (e.g., bitcoin or ether tokens)

Platform Cryptoassets: non-redeemable Digital Native tokens, with **no rights conferred** against the issuer (if one exists), that may be exchangeable for specified value, are hard-coded into any underlying platform and must serve one or both of the following functions:

- Cryptographic economic incentive to maintain and secure to network or application infrastructure including preservation of processing throughput (e.g., through payment of “gas fees” or staking); or
- universal medium of exchange of the underlying network infrastructure.

Other Cryptoassets (e.g., meme coins)

Other Cryptoassets: non-redeemable Digital Native tokens, with **no rights conferred** against the issuer (if one exists), that are used as a speculative investment.

As all **Cryptoassets** are not pegged to the value of a reference asset, do not represent ownership or other legal claim against a company or other type of issuer, nor guaranteed by a regulated financial institution, their value is driven by market dynamics and/or supply and demand mechanics.

Classification of Digital Assets

Functional Digital Assets

Typical use cases include governance or access to a specific infrastructure or app, and specific functional utility.

Settlement Controllable Electronic Records

Typical use cases include digital record-keeping, particularly in facilitation of financial transactions.

Functional Digital Assets

Functional Digital Assets: digital tokens that **cannot be exchanged for value** issued (where applicable) to provide the owner of the token with a specific utility such as:

- Application-specific governance rights, voting weights, or decision-making authority; and
- record of entitlement right to rewards or revenue from a specific application or community.

As the Digital Asset ecosystem continues to evolve, the Subcommittee recognizes that there may be additional functions or utilities that are not contemplated at this time, and as such expects this classification category to continue to evolve over time.

Settlement Tokens

Settlement Tokens: digital tokens where such representation itself does not satisfy the definition of a security bank deposit, nor financial instrument under local law and is used solely to transfer or record ownership or perform other middle/back-office financial functions (e.g., collateral transfer, recording of ownership); often exists temporarily, typically for the length of the transaction it facilitates. This may be called the “books-and-records” use case, and a **Settlement Token** would not be considered as Digital Asset as defined herein.



**Updates from Subcommittees
on Future Agenda Items**



Closing Remarks