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Remarks to the Financial Stability Board's Crypto Working Group

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Good morning. It is an honor and a pleasure to host today's workshop on implementing the FSB's global regulatory framework for crypto-asset activities.

Today's workshop will build on yesterday's discussion of cross-border issues for stablecoins and updates from the Banco Central do Brasil, the United Kingdom (U.K.) Treasury and U.K. Financial Conduct Authority, Monetary Authority of Singapore, and the U.S. Securities and Exchange Commission. Today will feature thought-provoking sessions on regulatory approaches to multi-function crypto-asset intermediaries (MCIs), cross-border enforcement challenges, stablecoin implementation experiences, and interlinkages with traditional financial markets.

Before getting to all of that, though, I would like to share a bank regulator's perspective on the importance of coordination and collaboration when supervising global financial institutions. More specifically, I would like to share the story of the Bank of Credit and Commerce International—better known in bank regulatory circles as BCCI.

In July 1991, immediately prior to its closure, BCCI had assets of $23 billion and 380 offices in over 72 countries. In the United States, BCCI owned four banks, operating in seven states and the District of Columbia. Scattered throughout the world, BCCI had a complex web of subsidiaries, affiliates, branches, and other entities. While BCCI was subject to a variety of local host regulations, there was no lead regulator with responsibility for the enterprise in its entirety.

This meant that the supervision of BCCI was highly fractured, and no single supervisor had a clear picture of BCCI's consolidated activities.

To make matters worse, BCCI's parent holding company was not subject to supervision in the jurisdiction in which it was chartered, enabling the bank to engage in interaffiliate transactions that facilitated money laundering and obfuscated its true financial condition for years.

Despite these challenges, there was suspicion among at least some regulators of significant underlying problems. Several key authorities collaborated to successfully close BCCI in a coordinated fashion in July 1991.

The supervisability risks revealed by the rise and fall of BCCI led to significant enhancements in supervisory collaboration over internationally active banks. Through the Basel Committee on Bank Supervision (BCBS), bank supervisory authorities developed standardized criteria for the establishment of bank branches or subsidiaries by foreign banks and strengthened the relationships between home and host country supervisors. Supervisory colleges created in the wake of BCCI's failure enhanced the sharing of prudential information on firms with cross-border operations and deepened collaboration across jurisdictions. Today, supervisory colleges, along with crisis management groups, play a vital role in the supervision of global systemically important banks (GSIBs).

In response to the BCCI failure, the U.S. Congress passed the Foreign Bank Supervision Enhancement Act (FBSEA), which prohibited entry of any foreign bank into the U.S. unless it was subject to comprehensive, consolidated supervision by a home country agency. In short, to do business in the U.S., foreign banks needed to have a lead regulator with visibility and authority over the entirety of the bank's global activities. FBSEA also authorized the examination of foreign banking organization (FBO) branches and established the requirement that any foreign bank operating in the U.S. grant the federal banking agencies supervisory access to necessary information. Foreign jurisdictions enacted similar legislation, effectively "leveling up" by requiring comprehensive, consolidated supervision for all internationally active banking groups.

The BCCI story has parallels to FTX and other failed crypto-asset intermediaries. More importantly, most MCIs today continue to operate without a consolidated supervisor.

The FSB's global regulatory framework for crypto-asset activities lays out recommendations to promote comprehensive and consistent regulatory and supervisory approaches. But implementation has been challenging, and no real progress has been made on consolidated supervision.

This is, in part, because the crypto industry continues to resist what it sees as improper or over-burdensome regulation and oversight, while jurisdictions continue to compete for crypto business. The risk with such competition is that it gives the industry leverage and forces regulators to accommodate and compromise.

Fortunately, collaboration and coordination among financial regulators can serve as an effective mitigant to the risk of over-accommodation. Sharing information with peer agencies and seeking a common understanding of the risks and opportunities in the space can help ensure that regulatory standards remain high. The FSB's efforts in this regard have been extremely valuable.

As students and practitioners of financial stability, we know that trust is fragile. Once lost, it is difficult to regain. Even though the underlying blockchain technology is supposedly trust-resistant, nearly all crypto activities operate through intermediaries, whom users must trust. Put simply, there are no shortcuts, which is why the FSB principle of "same activity, same risk, same regulatory outcome" is so important as a guide to this work.

Before I hand things off, I want to pose a bigger picture question for workshop participants to ponder. What is the relationship between crypto and tokenization? The OCC recently hosted a symposium exploring the legal and risk management foundations of tokenizing real-world assets and liabilities. Blockchains and distributed ledgers were barely mentioned. In fact, the keynote speaker, Hyun Song Shin of the BIS, highlighted that tokenization can improve settlement and enable programmability without blockchains. Crypto advocates have cited tokenization as a key use case. But if blockchains are not necessary to achieving that, one wonders what the future landscape of tokenized real-world assets and liabilities might look like, and what the financial stability profiles of different scenarios might be.

Thank you, again, for your commitment to financial stability. I hope you enjoy the workshop.