



Submission to the Inquiry into the Digital Assets (Market Regulation) Bill 2023

Senate Economics Legislation Committee

May 2023

The Reserve Bank of Australia (RBA) welcomes the opportunity to make a submission to the Inquiry into the Digital Assets (Market Regulation) Bill 2023. This submission provides an overview of recent developments regarding stablecoins in Australia and associated regulatory reforms. It also focuses on the Bill's proposals for monitoring the use of foreign-issued Central Bank Digital Currency (CBDC) in Australia.

The RBA has a mandate to promote efficiency, competition and safety in Australia's payments system. A range of new business models and technologies are emerging in Australia's payments system, including stablecoins. Such innovations have the potential to deliver significant benefits to Australian consumers and businesses but also raise important payments policy issues.

Regulation of stablecoins

Stablecoins are a form of crypto-asset designed to maintain a stable value relative to a fiat currency (often the US dollar) or a commodity (such as gold). Interest in stablecoins has grown considerably in recent years, with activity globally concentrated in a small number of US-dollar-denominated stablecoins. Stablecoins have often been used as a 'bridge' between national currencies and the crypto ecosystem, though issuers are increasingly considering a broader range of use cases. There is growing interest in the potential for well-regulated stablecoins to enhance the efficiency and functionality of a range of payment and other financial services.

Stablecoin activity in Australia has been relatively limited to date, although there is potential for stablecoins to play a more prominent role in the financial system in the future. Some banks, for example, have been exploring the use of stablecoins for facilitating cross-border payments and settlement of tokenised asset transactions. The RBA supports the development of regulatory arrangements for stablecoins that support innovation while providing appropriate safeguards and protections for investors and users.

Regulators and international bodies have been undertaking significant work in recent years to understand and address risks arising from stablecoin activity. A common theme across jurisdictions has been to consider the regulatory arrangements for stablecoins that could become widely used for payments as a priority. In Australia, work on a regulatory framework for crypto-assets is being led by the Treasury, with support from the Council of Financial Regulators (CFR) agencies and other regulators. Consistent with the international focus, the CFR agreed in 2022 that developing a framework for

regulating ‘payment stablecoins’ should be a priority, given the potential for these arrangements to become widely used as a means of payment and a store of value in the economy.¹

The risks posed to users of payment stablecoins can be similar to those posed by certain stored-value facilities, including the risk of user losses due to the failure of the issuer to meet their obligations (e.g. because of a failure to appropriately safeguard customer funds, illiquidity and/or insolvency). Accordingly, the CFR undertook to work on options for incorporating payment stablecoins into the proposed regulatory framework for stored-value facilities. This is one element of broader reforms to the payments regulatory framework following the Treasury Review of the Australian Payments System (Treasury 2021). The RBA strongly supports the development of a modern, risk-based regulatory framework for payment service providers, including stored-value facilities and payment stablecoin arrangements.

Foreign CBDC data collection

CBDC is a potential new form of digital money that would be issued by central banks to the public. The RBA is actively engaging in CBDC research but has not made any decision about whether to issue a CBDC in Australia.

Central banks in a small number of developing economies have issued CBDCs. Issuance in these countries has been relatively small and focused on domestic use. The focus for countries that have issued, or are planning to issue, CBDCs has been to improve the efficiency of their domestic payments systems and promote financial inclusion (Kosse and Mattei 2022). However, it is possible that in the future, CBDCs could be issued to, or accessible by, non-residents, and potentially used outside of the issuing jurisdiction.

The RBA notes the Bill’s proposal to require authorised deposit-taking institutions (ADIs) to regularly report foreign CBDC account and payment information to the Australian Securities and Investments Commission (ASIC) and the RBA. ASIC and the RBA would then report on this information to the relevant Minister and various parliamentary committees.

The RBA supports transparency regarding the use of payment methods in Australia. To promote the efficiency and competitiveness of Australia’s payments system, the RBA regularly collects and publishes data from commercial banks and other participants in the payments system as part of its retail payments statistics (RBA 2023). The RBA also conducts a detailed survey of consumer payment behaviour in Australia every three years. As the way in which Australians make payments evolves, it is important that these data collections remain fit-for-purpose and the RBA is undertaking a review of its key payments data collections. The RBA has existing powers under the *Payment Systems (Regulation) Act 1998* to collect data from participants in the Australian payments system.

In terms of the Bill’s proposal to collect data on foreign CBDCs from ADIs, the extent to which this would provide visibility over the use of foreign CBDCs by Australian residents would likely depend on design features, including the way in which Australian residents may access the foreign CBDCs. For example, if ADIs were involved in the provision of digital wallet services for foreign CBDCs, then it is possible that ADIs would have data on their use by Australian residents. However, if these services were also provided by non-ADI entities (e.g. bigtechs, fintechs or foreign central banks) then collecting data from

1 Payment stablecoins are a subset of stablecoin arrangements with features that are designed to facilitate their widespread use as a means of payment (i.e. to function as a form of ‘money’). Such features could include, for example, the ability (or implied promise) for holders to be able to redeem the stablecoin on demand and ‘at par’ (full value) in the national currency.

ADIs alone would not provide a full picture of Australian residents' use of foreign CBDCs. Accordingly, it is possible that requiring ADIs to report additional data to ASIC and the RBA may not necessarily achieve the objectives outlined in the Bill. Further consideration could be given to appropriate mechanisms to monitor foreign CBDC use in view of emerging design and other features.

Reserve Bank of Australia
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References

Kosse A and I Mattei (2022), 'Gaining momentum – Results of the 2021 BIS survey on central bank digital currencies'. BIS Papers No 125. Available at <<https://www.bis.org/publ/bppdf/bispap125.pdf>>.

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