



**Central Bank of The Bahamas**

**PUBLIC CONSULTATION**

On the

Digital Assets Guidelines, 2022

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## DIGITAL ASSETS GUIDELINES, 2022

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## INTRODUCTION

1. The Central Bank of The Bahamas (“the Central Bank”) is responsible for the licensing, regulation and supervision of supervised financial institutions (“SFIs”) operating in and from within The Bahamas pursuant to The Banks and Trust Companies Regulation Act, 2020 (“the BTCRA”) and the Central Bank of The Bahamas Act, 2020 (“the CBA”).
2. All SFIs are required to adhere to the Central Bank’s licensing, regulation and prudential requirements and ongoing supervisory programmes, including periodic on-site inspections, and required regulatory reporting. SFIs are also expected to conduct their affairs in conformity with all other Bahamian legal requirements.

## PURPOSE

3. These Guidelines provide an overview of the Central Bank’s expectations of SFIs that engage in digital asset activities. Digital assets are a diverse asset class with varying characteristics that in certain cases may resemble traditional financial assets such as bonds, equities, commodities and cash held in custody. The Central Bank subscribes to the philosophy of “same risk, same activity, and same treatment”<sup>1</sup>. Therefore, the prudential treatment of digital assets is based on the risks that are associated with the underlying characteristics of these assets. SFIs should take a risk-based approach, factoring in their Board approved risk appetite and their resources. Where there may exist additional risks posed by these assets, SFIs should ensure that the risks are promptly identified, measured, and mitigated.
4. These Guidelines should be read in conjunction with **The Bahamas Capital Regulations, 2022 (“Capital Regulations”), The Banks and Trust Companies (Acquisition of Shares) Regulations, 2005, Guidelines for the Management of Capital and the Calculation of Capital Adequacy (“Capital Adequacy Guidelines”), Guidelines for the Corporate Governance of Banks and Trust Companies Licensed to do Business within and from within The Bahamas (“Corporate Governance Guidelines”), AML/CFT Guidelines, Guidelines for the Management of Large Exposures (“Large Exposures Guidelines”), The Management of Credit Risk Guidelines, and the Technology Risk Management Guidelines.** The Central Bank endorses the principles in the Basel Committee on Banking Supervision (“the Basel Committee”) draft standard text, **Chapter SCO60 Cryptoasset Exposures**. SFIs are encouraged to refer to the full Basel document at [www.bis.org](http://www.bis.org).<sup>2</sup>

<sup>1</sup> Adopted from Basel’s Cryptoasset Exposures Framework.

<sup>2</sup> In this paper, the wording digital assets is used, which is the generic and wide classification that encompasses cryptoassets. The Basel paper on prudential treatment of cryptoasset exposures refers to cryptoassets, which

## APPLICABILITY

5. These Guidelines apply, as appropriate, to all SFIs that are or seek to be engaged in **digital asset business activities (also referred to herein as digital asset activities)**. This framework represents the Central Bank's identification of accepted best practices for effective risk management in SFIs. The Central Bank appreciates that the breadth of the risk management programme in each SFI will depend on the scope and sophistication of the activities of the SFI, the nature and complexity of its digital asset-related businesses activities, and the types and levels of the risks that it assumes. However, failure to adopt a satisfactory risk management programme appropriate to a SFI's business activities, constitutes an unsafe and unsound practice and could subject the SFI to regulatory sanctions and/or other supervisory intervention measures. Where these Guidelines conflict with any requirements outlined by the Securities Commission of The Bahamas ("SCB"), jointly supervised entities should adopt the more conservative approach. **These Guidelines do not apply to central bank digital currencies ("CBDCs")<sup>3</sup>.**
6. As part of its ongoing off-site supervision, on-site examination and analysis programmes, the Central Bank will periodically conduct an evaluation of each SFI's strategies, policies, procedures and the management of their business activities. **Central Bank's Regulations and Guidelines establish the standards against which each SFI's risk management programme will be evaluated.**

## DEFINITIONS

7. For the purpose of these Guidelines:-

**"Asset Token"** means a digital asset that represents a claim against the issuer that –

- a) is intended to represent an asset and is embedded with underlying assets; or
- b) derives its value by reference to an underlying asset; or
- c) is secured by an underlying asset; or
- d) is backed by assets held as collateral for the primary purpose of encouraging price stability.

**"Custodian"** means a SFI charged with the custody of digital asset keys on behalf of clients.

**"Custody of Digital Assets"** means any arrangement under which a person is authorised to hold directly or indirectly a customer's access keys, smart contracts or other forms of digital assets.

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is defined therein as private digital assets that depend on cryptography and distributed ledger or similar technology.

<sup>3</sup> The CBDCs are governed by the Bahamian Dollar Digital Currency Regulations, 2021.

**“Digital Asset”** means a digital representation of value distributed through a distributed ledger technology (“DLT”) platform where value is embedded or in which there is a contractual right of use and includes without limitation digital tokens.

**“Digital Asset Business”** has the meaning assigned to it in the DARE Act, 2020.

**“Digital Asset Services Provider”** means a person that –

- a) under an agreement as part of its business –
  - i. Can undertake a digital asset transaction on behalf of another person; or
  - ii. Has power of attorney over another person’s digital asset; or
- b) operates as a market maker for digital assets.

**“Digital Tokens”** include-

- a) Virtual currency tokens
- b) Asset tokens
- c) Utility tokens
- d) Non-fungible tokens (“NFTs”); and
- e) Any other digital representation of value designated by SCB to be a digital token under the DARE Act, 2020.

**“Exposures”** has the meaning assigned to it in the Banks and Trust Companies (Large Exposures) (Amendment) Regulations, 2012.

**“Initial Token Offering” or “ITO”** means an offer by an issuer to the public for the sale of a digital token in exchange for fiat currency or another digital asset.

**“Nodes”** are typically participants (entities including individuals) in distributed ledger networks that record and share data across multiple data stores (or ledgers).

**“Non-fungible Token”** means a unique digital token created for use in specific applications, which cannot be divided and is not interchangeable with other types of digital tokens and cannot be sold in a secondary market.

**“Organiser”** if different from the issuer, means a person who, acting alone or in conjunction with one or more other persons to procure the organisation and formation of an issuer and the promotion and issuance of digital assets through an initial token offering.

**“Operators”** are typically a single administrative authority in charge of managing a digital asset arrangement, performing functions that may include issuing the centralised digital asset, establishing the rules for its use; maintaining a central payment ledger; and redeeming (withdraw from circulation) the digital asset.

**“Person”** means an individual; sole proprietorship; partnership; joint venture; foundation; trust; estate; business trust; company; corporation; fund; unincorporated association or organisation; sovereign government or agency; instrumentality, or political subdivision thereof; or any similar entity or organisation.

**“Redeemers”** are entities responsible for exchanging the digital asset for the traditional asset.<sup>4</sup>

**“Stablecoins”** are asset tokens that aim to maintain a stable value relative to a specified asset, or a pool or basket of assets.

**“Utility Token”** means a right of access or a discount represented in binary format to an application, utility or service but which does not, directly or indirectly, provide the holders thereof with any of the following contractual or legal rights:

- a) Ownership or equity interest in the issuer or in any person or pool of assets;
- b) Entitlement to share of profits, losses, assets or liabilities of the issuer or any other person or pool of assets, except in the event of the liquidation of the issuer, to receive a portion of the original subscription price paid at the time of the initial token offering;
- c) Legal status as a creditor; or
- d) Entitlement to receive distribution of profits, revenues, assets, or other distributions from the issuer or any other person or pool of assets.

**“Validators”** are entities that commit transactions blocks to the distributed ledger network.

**“Virtual Currency Token”** means a digital representation of value, which can be digitally traded and functions as a (i) medium of exchange, (ii) unit of account, or (iii) store of value that is not a digital currency and does not have legal tender status or carry any security or guarantee in any jurisdiction<sup>5</sup>.

## GOVERNANCE AND RISK MANAGEMENT

8. Senior management of SFIs should ensure that the Board has granted its approval prior to engaging in digital asset activities. SFIs must comprehensively assess the full gamut of risks associated with the type and magnitude of digital asset activities, inclusive of liquidity risk; credit risk; market risk; operational risk; money laundering, terrorist & proliferation financing risk, legal risk, reputation risk, and risks related to

<sup>4</sup> The redeemer does not necessarily need to be the same as the entity responsible for organising the issuance of the digital asset.

<sup>5</sup> This definition is sourced from the DARE Act 2020. As of June 2021, El Salvador instituted Bitcoin as legal tender. Nevertheless, Bitcoin and other similar digital assets that might attain legal tender status would be categorised as virtual currency tokens for regulatory purposes.

fraud, tax and sanctions evasion. The Board of Directors must approve and maintain oversight of senior management's execution of their risk management framework.

9. The risk management framework governing digital assets activity should be fully integrated into the overall risk management processes. Any increase in risks posed by digital assets exposure should be captured and effectively incorporated into SFIs' Internal Capital Adequacy Assessment Process ("ICAAP"). In carrying out digital asset activities, SFIs must comply with the obligations imposed by the AML/CFT laws of The Bahamas as well as the Central Bank's revised [Guidelines on the Prevention of Money Laundering & Countering the Financing of Terrorism](#).
10. SFIs should also ensure that customers are adequately informed of the fundamental benefits, risks and terms of the products. This could take the form of a brief notice issued to clients to increase customer awareness; thus helping to ensure that risks are aligned to clients' documented goals and risk tolerances.
11. Depending on the digital assets activity engaged in, SFIs should mitigate any number of risks inherent to the supporting technology that include but are not limited to the stability of the DLT or similar technology network, validation design of the DLT (permissionless or permissioned), service accessibility, trustworthiness of node operators and operator diversity, general information communication and technology ("ICT"), legal risks (accounting, control/ownership, and legal status) and valuation challenges. Moreover, SFIs should also consider risks that could negatively impact the proper functioning of the DLT or similar technology infrastructure, such as the misalignment of validator incentives. SFIs should refer to the [Technology Risk Management Guidelines](#) to ensure that their risk management frameworks sufficiently mitigate any cyber risks.

## FORMS OF DIGITAL ASSET ENGAGEMENT

12. SFIs are not restricted from offering traditional financial services to digital asset businesses. However, the Central Bank reserves the right to impose additional requirements with respect to SFIs' digital asset business activities. The following forms of digital asset activities govern the Central Bank's notification requirements and expectations:
  - i) Issuing Digital Tokens;
  - ii) Doing business as a digital asset service provider;
  - iii) Doing business with a digital asset service provider; and
  - iv) Doing business on behalf of clients investing in digital assets.

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### Issuing Digital Tokens

13. SFIs are required to notify the Central Bank prior to engaging in ITOs<sup>6</sup>.
14. As SFIs have successfully raised funds through initial public share offerings in the past, they are permitted to issue ITOs for asset tokens, non-fungible tokens, and utility tokens that have similar properties as shares or that have some other underlying value. Conversely, direct issuance of non-fiat linked virtual currency tokens is not permitted.
15. Where ITOs have the potential to create an ownership interest within the SFI, the SFIs must first apply to the Central Bank for approval before issuance. Where three percent or more of the issued share capital of a publicly traded SFI is held or acquired through tokens, SFIs shall, within 28 days of the acquisition, notify the Central Bank and comply with all other reporting requirements under the **Banks and Trust Companies (Acquisition of Shares) Regulations, 2005**.<sup>7</sup> Furthermore, the Central Bank's dividend payment policies remain applicable to tokenised shares as with traditional shares.
16. Notwithstanding SCB's regulatory oversight for ITOs and digital asset exchanges, the Central Bank will monitor SFIs' digital asset activities, for prudential and exchange control purposes.

### Doing Business as a Digital Asset Service Provider

17. In doing business as a Digital Asset Service Provider, SFIs are expected to perform a risk assessment in addition to notifying the Central Bank, before establishing such operations. This ensures that SFIs have considered the risks as well as how the activities align with their respective risk appetites and business models. The Central Bank may also require more formal discussions with senior management. Additional factors that may impact these requirements are the SFI's existing reporting requirements, profitability, and capital adequacy.

### Doing Business with Digital Assets Service Providers

18. SFIs are also required to notify the Central Bank prior to onboarding relationships with Digital Assets Service Providers. SFIs should communicate the details of the relationship and ensure that the entity has the proper risk management framework to mitigate any risks that could materialise from third party or outsourcing

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<sup>6</sup> In reviewing proposals to act as an issuer or organiser of ITOs, the Central Bank will determine whether the offering would meet the definition, and satisfy the requirement of a sanctioned instrument under the PSA, or be subject to any regulatory oversight criteria that the SCB may establish.

<sup>7</sup> Under these Regulations, an exemption is extended in the case of publicly traded SFIs, where the issued share capital of a publicly traded SFI is to be acquired by a single person or a group of persons acting together, and the aggregate holdings of such person or persons does not exceed five per cent of the issued share capital of the publicly traded SFI.



arrangements. Any additional requirements would depend on the SFI's existing reporting requirements, profitability, and capital adequacy. Further, it is the duty of the SFI to inform the Central Bank of any third party service provider arrangements in which the licensee may be involved.

### **Doing Business on behalf of clients investing in digital assets**

19. SFIs that offer services to clients who are investing in digital assets are not required to notify the Central Bank. This form of digital asset activities is broad, and can range from digital assets custody, exchange, and financing purchases. SFIs may accept cryptographic keys from clients to keep in custodial arrangements. However, SFIs should ensure that private keys and other necessary data are securely stored; and ensure the ongoing availability of assets held under custody.
20. Authorised Dealers and Agents are SFIs deemed "resident" for Exchange Control purposes that can facilitate purchases and sales of digital assets on behalf of residents through the Investment Currency Market (ICM). SFIs deemed "non-resident" for exchange control purposes can facilitate such activities by "non-residents" free of exchange control restrictions. Nevertheless, SFIs designated as Authorised Dealers or Agents can only facilitate digital assets transactions or maintain trading portfolios on behalf of clients categorised as "residents", after they have obtained Exchange Control approval to do so.
21. Whether by credit card or direct use of foreign exchange, only Authorised Dealers are permitted to supply foreign exchange for foreign portfolio investments, inclusive of digital assets.
22. When onboarding new clients for digital asset custodial services, SFIs should undertake enhanced due diligence ("EDD") to ascertain the source of funds used to acquire the digital assets and the origination of the assets. SFIs should also obtain a list of beneficiaries and signatories on the custody account. SFIs facilitating digital custody should require that the client provide any combination of their public key, private key, or wallet address, as necessary, to identify the beneficial owner of the digital asset.
23. SFIs must maintain adequate accounting and other relevant records, adequate systems and controls to accurately track ownership and quantity of client digital assets; and maintain appropriate business continuity processes, procedures and controls.
24. SFIs must not accept virtual currency tokens or other digital assets as deposit liabilities on their balance sheets. There is no prohibition against extending credit to clients for the purchase of digital assets, however, SFIs must ensure that the collateral for such credit, in the event of default, do not deviate from the acceptable forms of assets or securities that they are directly permitted to hold on their balance sheet.

25. It should also be noted that the preceding forms of digital asset activity are not mutually exclusive. SFIs may engage in these activities simultaneously. Where SFIs are engaged in more than one form of digital asset activity they are expected to establish additional controls where appropriate.

## **ELECTRONIC MONEY ISSUANCE**

26. The Central Bank will only authorise the issuance of electronic money<sup>8</sup> by SFIs that are linked to funds held on SFIs balance sheets as fiat deposit liabilities or in fiat funds that have been placed in the custody of SFIs for electronic money transactions. As such, SFIs will not be permitted to issue electronic money that is not backed by central bank fiat currency<sup>9</sup>. Although digital assets may be utilised for peer to peer transactions, they are not legal tender within this jurisdiction.
27. Under the broad provisions of the Payment Systems Act, 2012 (“PSA”) and the specific requirements of the Payments Instruments (Oversight) Regulations, 2017 (“PIOR”), SFIs contemplating offering payment services in or from within The Bahamas would have to demonstrate that they have robust governance arrangements; safe and sound business practices; systems in place to measure, monitor, and adequately control market and other risks; measures to address consumer protection, education and privacy; adequate fraud and risk management frameworks; and auditable AML/ CFT policies, practices and procedures to prevent the use of their services for criminal purposes.

## **PRUDENTIAL TREATMENT**

### **Prudential Classification Conditions**

28. Given the diversity of digital assets and the varying levels of decentralisation that exist within the digital assets ecosystem, the prudential treatment shall be based on the characteristics of the assets and not simply their terminologies. The Central Bank has adopted a broad-based approach for the appropriate guidance to promote safety and soundness. For prudential purposes, digital assets are divided into three separate categories: Group 1a, Group 1b, and Group 2 digital assets. Group 1a digital assets include tokenised traditional assets that meet all the classification conditions. Group 1b digital assets include stablecoins that meet all the classification conditions. Group

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<sup>8</sup> According to the PIOR, 2017 “Electronic Money” or “e-money” means electronically stored monetary value as represented by a claim on the issuer, which is issued on receipt of funds for the purpose of making payment transactions and which is accepted as a means of payment by persons other than the issuer, and includes monetary value stored magnetically or in any other tangible or intangible device (such as a SIM card or software).

2 digital assets include all other digital assets (i.e. tokenised traditional assets, stablecoins and unbacked digital assets) that fail to meet the classification conditions.

29. To qualify for treatment as a Group 1 (1a and 1b) digital asset, the following four classification conditions must be satisfied:

- i) **Classification Condition 1:** The asset is either: (i) a tokenised traditional asset; or (ii) has a stabilisation mechanism that is effective at all times in linking its value to a traditional asset or a pool of traditional assets (i.e. reference asset(s));
- ii) **Classification Condition 2:** All rights, obligations and interests arising from the digital asset arrangement are clearly defined and legally enforceable in all the jurisdictions where the asset is issued and redeemed. In addition, the applicable legal framework(s) ensure(s) settlement finality;
- iii) **Classification Condition 3:** The functions of the asset and the network on which it operates, including the distributed ledger or similar technology on which it is based, are designed and operated to sufficiently mitigate and manage any material risks; and
- iv) **Classification Condition 4:** Entities that execute redemptions, transfers, storage or settlement finality of the digital asset, or manage or invest reserve assets, are regulated and supervised, or subject to appropriate risk management standards.

30. Tokenised traditional assets will only meet Classification Condition 1, if they satisfy the following requirements:

- i) They are digital representations of traditional assets using cryptography, DLT or similar technology to record ownership;
- ii) They pose the same level of credit and market risk as the traditional form of the asset;
- iii) They do not need to be first redeemed or converted into traditional assets before they receive the same legal rights as direct ownership of traditional assets; and
- iv) Through their specific construction, they do not involve additional counterparty credit risks relative to traditional assets.

31. Digital assets that have a stabilisation mechanism will only meet Classification Condition 1 if the digital asset is designed to be redeemable for a predefined amount of a reference asset or assets (e.g. 1 USD, 1 oz. gold) or cash equal to the current market value of the reference asset(s) (e.g. USD value of 1 oz. gold). The value of the reference asset(s) to which one unit of the digital asset is designed to be redeemable is referred to as the “peg value”.

32. The stabilisation mechanism must be designed to minimise fluctuations in the market value of the digital assets relative to the peg value. In order to satisfy the “effective at

all times” condition, SFIs must have a monitoring framework in place verifying that the stabilisation mechanism is functioning as intended. The stabilisation mechanism must enable risk management similar to the risk management of traditional assets, based on sufficient data or experience. For newly established digital assets, evidence must be provided to satisfy the Central Bank of the effectiveness of the stabilisation mechanism, including composition, valuation and frequency of valuation of the reserve asset(s) and the quality of available data.

33. SFIs should ensure that there exists sufficient information to verify the ownership rights of the reserve assets upon which the stable value of the digital asset is dependent. In the case of underlying physical assets, SFIs must verify that these assets are stored and managed appropriately. This monitoring framework must function regardless of the digital asset issuer. SFIs may use the assessments of independent third parties for the purposes of verification of ownership rights, only if they are satisfied that the assessments are reliable. Stabilisation mechanisms that reference other digital assets as underlying assets (including those that reference other digital assets that have underlying traditional assets or use protocols to increase or decrease the supply of the digital asset) will be classified as Group 2 digital assets.
34. SFIs, on an ongoing basis, are responsible for: (i) assessing whether a digital asset is compliant with the classification conditions; and (ii) demonstrating to supervisors how a digital asset fulfils these conditions. Thus, SFIs should have in place the appropriate risk management policies, procedures, governance, human, and IT capacities to evaluate the risks of engaging in digital asset business and implement these accordingly on an ongoing basis and in accordance with internationally accepted standards.

### **Prudential Risks**

35. In addition to identifying the risks involved with the infrastructure of digital asset arrangements and applying effective risk management frameworks to manage such risks, digital assets also receive specific prudential risk treatment. Following an assessment of the risks involved in these assets, the Central Bank expects SFIs to incorporate best practices and maintain high standards including instances where digital assets have similar characteristics as traditional assets.

### **Infrastructure Risk-Add on**

36. As mentioned earlier, Group 1 digital assets are incorporated into the existing regulatory framework since these assets are deemed lower risk than Group 2 digital assets. As digital assets technology continues to evolve, unforeseen risks inherent with DLTs or similar technology could crystallise; thus an infrastructure add-on to risk weighted assets of 2.5 per cent is applied to all Group 1 digital assets.

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### Credit Risk<sup>10</sup>

37. SFIs should ensure that their credit risk frameworks adequately capture any underlying risks that could increase the likelihood of default based on the characteristics of the digital assets. With regards to recognising Group 1 digital assets as collateral, SFIs must separately assess whether these assets comply with the relevant eligibility requirements for collateral recognition under the ***Capital Regulations, 2022***.
38. Additionally for lending exposures to Group 2 digital assets a direct deduction from Common Equity Tier 1 (“CET1”) capital or a risk weight of 100 per cent is required. Where SFIs wish to extend loans for the purchase of digital asset exchange traded funds (“ETFs”), these loans should be backed by cash or other low-risk asset. Such loans shall be considered higher risk with risk weights at 75 per cent to 100 per cent, depending on the underlying assets of the digital asset ETF. Specifically, the risk weights to be applied are dependent on whether the ETF is comprised mainly of Group 1 digital assets or Group 2 digital assets.

### Liquidity Risk

39. Due to the risks associated with the settlement finality of certain digital assets, stringent liquidity standards will apply. Notwithstanding the similarities that tokenised traditional assets may share across different prudential risk types, there may be instances where the redemption timeframe of a digital asset may exceed that of a traditional asset. Thus, digital assets will not be included in the stock of high quality liquid assets (“HQLA”) under the Liquidity Coverage Ratio (“LCR”). Digital assets are not considered readily accessible to meet obligations that are coming due. By implication, no category of digital assets would be eligible to meet reserve requirements or liquid assets requirements.

### Market Risk

40. All public banks and bank and trust companies incorporated in The Bahamas, that have a trading book that meets the *de minimis* threshold as prescribed in the Market Risk Guidelines are subject to a market risk charge. Group 2 digital assets are considered highly volatile, thus exposing investors and digital trading platforms to material market risk. Thus for trading book exposures to Group 2 digital assets that do not meet the *de minimis* threshold, a direct deduction from Common Equity Tier 1 (“CET1”) capital or a risk weight of 100 per cent is required. For Group 2 digital assets exposures that are beyond the *de minimis* threshold, a risk weight of 1,250% is applied to the greater of the absolute value of the aggregate long positions and the absolute value of the aggregate short positions to which the SFI is exposed:

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<sup>10</sup> Payment service providers, however, are prohibited from offering lending services.

$$\text{Risk Weighted Assets} = \text{Risk Weight} \times \max [\text{abs (long)}, \text{abs (short)}]$$

41. SFIs are required to disclose the methodology related to their asset valuation calculations and, when possible, use recognised benchmarks or observable, bona fide, arms-lengths market transactions. The Central Bank expects that SFIs' risk management policies and procedures will be commensurate with the risks associated with direct and indirect exposure to digital assets. Changes in the risk profile of the digital asset portfolio should be incorporated in SFIs' ICAAP to determine if additional adjustments are needed to CET1 capital. The Central Bank reserves the right to place restrictions on an SFI's digital asset activity or to require that it liquidate such investments.

### **Group 2 Exposure Limit**

42. For Group 2 digital assets, the Central Bank has set a provisional exposure limit of five per cent of CET1 capital. This limit is applied jointly to all Group 2 digital assets on gross exposures with no netting or recognition of diversification benefits. SFIs must not hold investments in digital assets or issuers of virtual tokens that exceeds this limit. SFIs must apply the exposure limit to their aggregate exposures to Group 2 digital assets, including both direct holdings (cash and derivatives) and indirect holdings (i.e. those via investment funds, exchange traded funds/ exchange traded notes, and special purpose vehicles). Where SFIs plan to increase their exposure beyond the limit they must obtain the prior approval of the Central Bank.

### **Operational Risk**

43. The operational risk resulting from digital asset activities should generally be captured by the operational risk standardised approach through the Business Indicator – which should include income and expenses resulting from activities relating to digital assets – and through the Internal Loss Multiplier – which should include the operational losses resulting from these activities. To the extent that operational risks relating to digital assets are insufficiently captured by the minimum capital requirements for operational risk and by the internal risk management processes, SFIs should take appropriate steps to safeguard capital adequacy and promote sufficient resilience.

### **Leverage Ratio**

44. Digital assets are included in the leverage ratio exposure measure according to their value for financial reporting purposes, based on applicable accounting treatment for exposures that have similar characteristics. For cases where the digital asset exposure is an off-balance sheet item, the relevant credit conversion factors set out in the *Fourth Schedule of the Capital Regulations, 2022* will apply in calculating the exposure measure.

45. For Group 1b digital assets/stable coins, where the SFI is involved in the digital asset network as a member who is able to deal directly with the redeemer and has promised to purchase digital assets from non-member holders, the member also needs to include the total current value of all the off-balance sheet digital assets that the SFI could be obliged to purchase from holders.

## CENTRAL BANK REPORTING REQUIREMENTS

46. The reporting requirements for SFIs' exposures to digital assets or related activities should follow the five general guiding principles for SFIs' disclosures set out in the Basel Framework<sup>11</sup>. According to the Basel Committee's five principles, disclosures should be:
- i. Clear;
  - ii. Comprehensive;
  - iii. Meaningful to users;
  - iv. Consistent over time; and
  - v. Comparable across banks.
47. In addition to quantitative information, SFIs must provide qualitative information that sets out an overview of their digital asset activities and the main risks related to their digital asset exposures, including descriptions of:
- i) Business activities related to digital assets, and how these business activities translate into components of the risk profile of the SFI;
  - ii) Risk management policies of the SFI related to digital asset exposures;
  - iii) Scope and main content of the SFI's reporting related to digital assets; and
  - iv) Most significant current and emerging risks relating to digital assets and how those risks are managed.
48. Notwithstanding the less conservative treatment for Group 1 digital assets in general, SFIs are expected to report all digital asset exposures separately from traditional asset classes. SFIs are also required to advise the Central Bank of any material digital asset exposures on a regular basis, including for each specific type of digital asset exposure information on:
- i) The direct and indirect exposure amounts (including the gross long and short components of net exposures);
  - ii) The capital requirements; and
  - iii) The accounting classification.
49. In addition to the separate disclosure requirements set out above that apply to all Group 1 and Group 2 digital assets, SFIs must include exposures to Group 1 digital

<sup>11</sup> (See [DIS10 - Definitions and applications \(bis.org\)](https://www.bis.org/bis10/Definitions%20and%20applications%20(bis.org).pdf))

assets in the relevant existing ERS forms that apply to traditional assets (e.g. for credit risk and market risk).

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