

# OSFI CALLS FOR STAKEHOLDER FEEDBACK ON REGULATORY CAPITAL AND LIQUIDITY TREATMENT OF CRYPTO-ASSET EXPOSURES

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**Categories:** [Insights](#), [Publications](#)

While crypto-assets can provide many benefits to investors and consumers, they also create new risks for centralized banking systems and insurers.

## Setting The Bar: The Basel Committee's Prudential Treatment of Crypto-asset Exposures

In December 2022, the Basel Committee on Banking Supervision, which is made up of central banks and bank supervisors from 28 jurisdictions globally (the "**Committee**"), released certain [banking standards for crypto-asset exposures](#) ("**Standards**") that are to be implemented by January 1, 2025.

The Standards include requirements for banks to:

- classify crypto-assets as a Group 1 Crypto-asset (for assets that fully meet the criteria proposed) or a Group 2 Crypto-asset (for assets that fail to meet the criteria proposed);
- actively address infrastructure risks, or become subject to an infrastructure risk add-on based on any observed weaknesses in the infrastructure that underlies crypto-assets;
- conduct a redemption risk test before crypto-assets with stabilisation mechanisms (i.e., Stablecoins) can be eligible for inclusion in Group 1 to ensure that reserve assets are sufficient to enable such crypto-assets to be redeemable at all times, including during periods of extreme stress, for the amount to which such crypto-asset is pegged;
- evaluate whether a bank's total exposure to Group 2 Crypto-assets exceeds the acceptable thresholds imposed by the Committee; and
- assess how the operational risk, liquidity, leverage ratio, and large exposure requirements should be applied to banks' crypto-asset exposures.

## Meeting Global Standards: OSFI's Proposed Guidelines for the Banking & Insurance Sectors

In order to align Canadian crypto-asset regulatory practices with the Standards, on July 26, 2023, the Office of the Superintendent of Financial Institutions ("**OSFI**") released two draft guidelines that reflect changes to its

capital and liquidity approach to crypto-assets (together, the “**Guidelines**”). The Guidelines are designed to mirror the international recommendations, with a few changes to better reflect the Canadian context (see the [guideline on the regulatory capital and liquidity treatment of crypto-asset exposures \(banking\)](#) and the [guideline on the regulatory capital treatment of crypto-asset exposures \(insurance\)](#)).

The Guidelines allow banks and insurers to choose a simplified approach instead of requiring them to classify crypto-assets as Group 1 or Group 2 in accordance with the Standards. More specifically, banks would instead deduct all crypto-asset exposures from common equity tier 1 capital and consider crypto-assets as non-high-quality liquid assets in their liquidity coverage ratio and net stable funding ratio standards. On the other hand, insurers would deduct all crypto-asset exposures from Gross Tier 1 or capital available.

While the simplified approach bypasses classification, the Guidelines also permit a more comprehensive approach similar to the categorization of Group 1 and Group 2 crypto-assets set out in the Standards. Group 1 includes tokenized crypto-assets and Stablecoins, while Group 2 includes hedged crypto-assets and other crypto-assets.

Regardless of whether the simplified or comprehensive approach is used, both banks and insurers are also required to consider additional factors that impact the treatment of crypto-asset exposures. Banks should provide consideration to the impact on credit valuation adjustment, counterparty credit risk, operational risk, leverage, and large exposure risk, while insurers should assess operational risk, large exposure risk, and foreign insurance branch requirements (i.e., foreign insurance branches are not permitted to vest crypto-asset exposures).

### **Call for Input from Stakeholders on the Proposed Guidelines**

OSFI invites comments on the Guidelines by **September 20, 2023**.

The feedback received will assist with informing the final Guidelines projected to be published in March, 2024, with the final versions of the Guidelines to be effective in Q1 of 2025. At that time, they will replace [the interim arrangements for the regulatory capital and liquidity treatment of cryptoasset exposure](#) previously released by OSFI in August, 2022.

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### **A Cautionary Note**

The foregoing provides only an overview and does not constitute legal advice. Readers are cautioned against making any decisions based on this material alone. Rather, specific legal advice should be obtained.

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